(TSE Prime Market Code 3433)

New possibilities for a bright future

# Financial Summary FY2023 (April 2023 – March 2024)

(5/15/2024)

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TOCALO トーカロ株式会社

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# 1. Overview of Consolidated Results FY2023

TOCALO

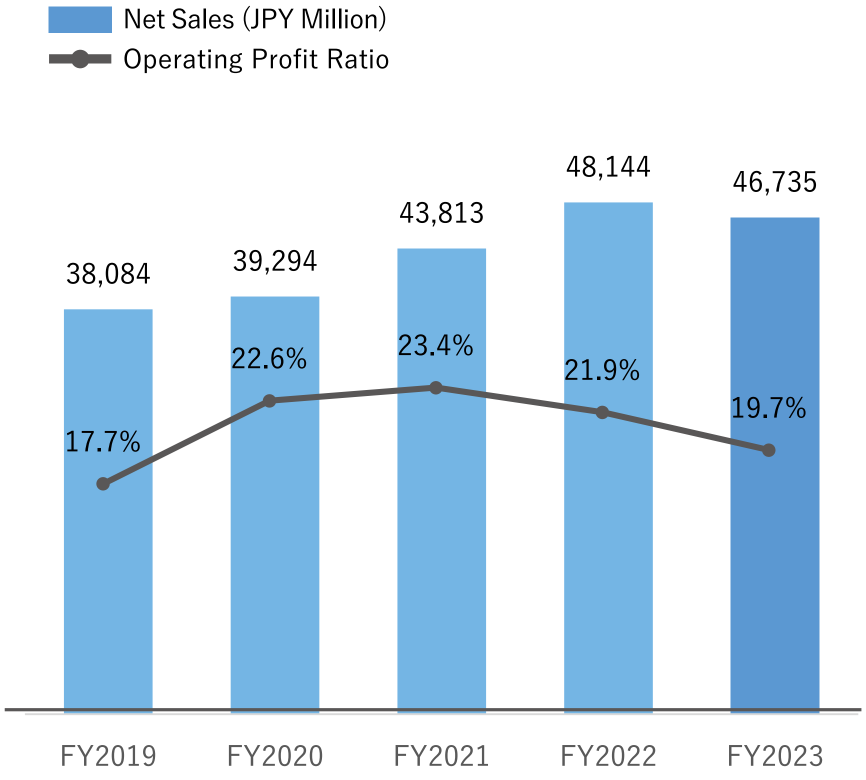
# Highlights of Consolidated Results FY2023

TOCALO

POINT Net sales decreased for the first time in four years due to a decline in the semiconductor field

Change -2.9%

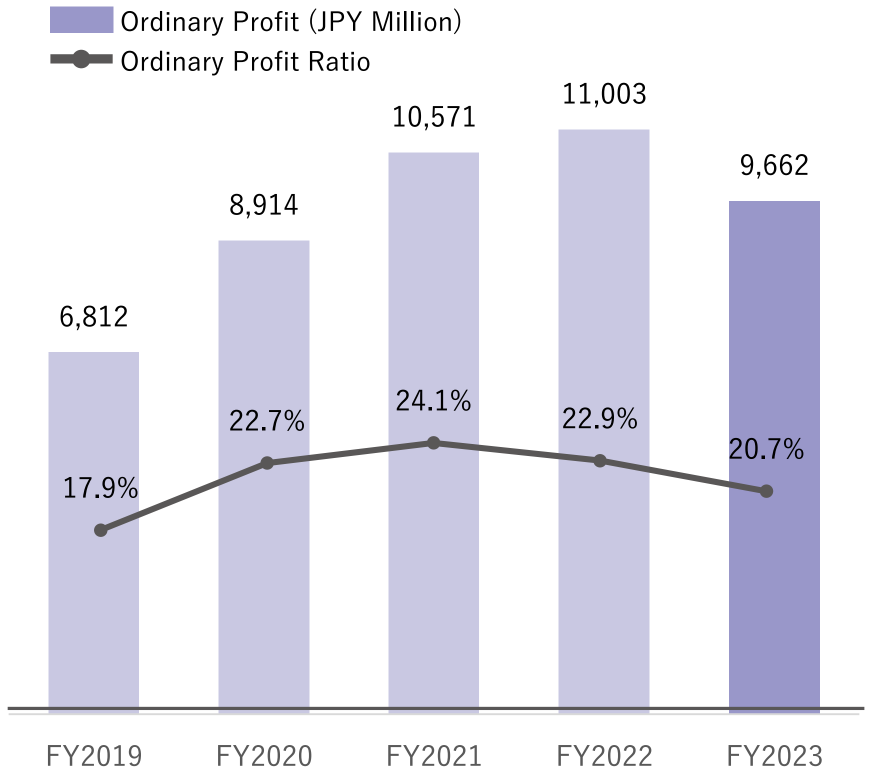
## Net Sales




POINT Ordinary profit decreased by 12.2% from the previous fiscal year, but exceeded the initial forecast (8.7 billion JPY)

Change -12.2%

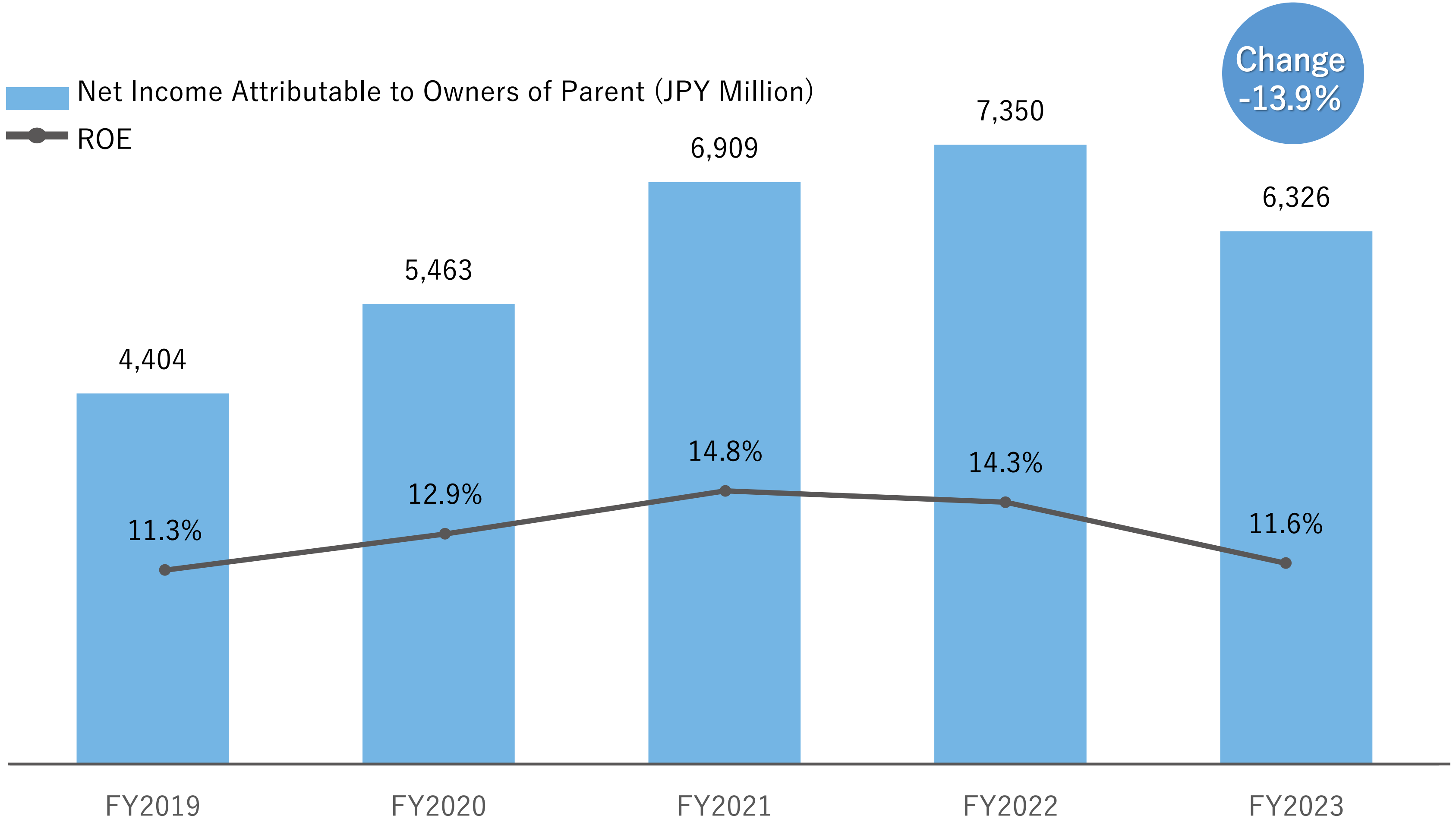
## Ordinary Profit



# Consolidated Results FY2023
## Net Income Attributable to Owners of Parent and ROE

POINT

Net income attributable to owners of parent is forecast to decrease by 13.9% YoY, and ROE is forecast to decrease by 11.6%



# Overview of Consolidated Results FY2023

TOCALO

- Net sales decreased by 2.9% year-on-year as other fields were unable to compensate for the decline in the semiconductor field
- Ordinary profit decreased by 12.2% year-on-year due to a decline in sales in the high-margin semiconductor field

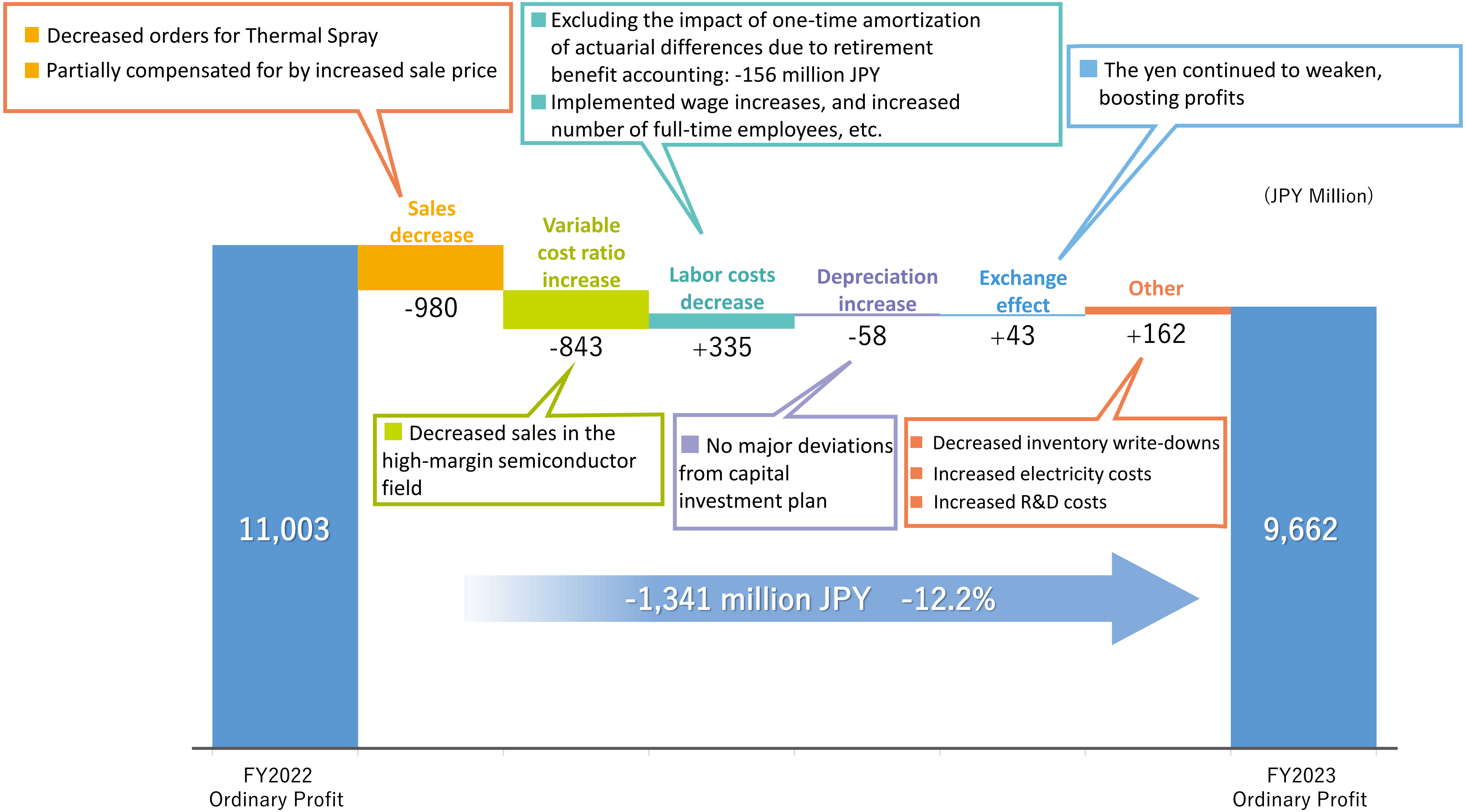
| (JPY Million) | FY2022 | | FY2023 | | Change | |
|---|---|---|---|---|---|---|
| | Result | Ratio | Result | Ratio | Amount | % |
| Net Sales | 48,144 | 100.0% | 46,735 | 100.0% | -1,408 | -2.9% |
| Operating Profit | 10,558 | 21.9% | 9,197 | 19.7% | -1,361 | -12.9% |
| Ordinary Profit | 11,003 | 22.9% | 9,662 | 20.7% | -1,341 | -12.2% |
| Net Income Attributable to Owners of Parent | 7,350 | 15.3% | 6,326 | 13.5% | -1,023 | -13.9% |
| Earnings Per Share (EPS) | 120.83JPY | — | 105.53JPY | — | -15.30JPY | — |

# FY2023 Net Sales (by Segment)

- Thermal Spray (TOCALO), the largest segment, decreased due to a decline in the semiconductor & FPD field
- Other segments performed well, including other surface modifications, where demand for agricultural machinery parts increased

| (JPY Million) | FY2022 | | FY2023 | | Change | |
|---|---|---|---|---|---|---|
| | Result | Ratio | Result | Ratio | Amount | % |
| Net Sales | 48,144 | 100.0% | 46,735 | 100.0% | -1,408 | -2.9% |
| Thermal Spray (TOCALO) | 36,184 | 75.2% | 33,859 | 72.4% | -2,324 | -6.4% |
| Semicon & FPD | 23,260 | 48.3% | 19,557 | 41.8% | -3,702 | -15.9% |
| Industrial Parts | 3,802 | 7.9% | 4,923 | 10.5% | 1,121 | 29.5% |
| Iron & Steel | 3,582 | 7.4% | 3,651 | 7.8% | 68 | 1.9% |
| Others | 5,539 | 11.6% | 5,727 | 12.3% | 187 | 3.4% |
| Other Surface Modif. | 2,745 | 5.6% | 3,019 | 6.5% | 273 | 10.0% |
| Domestic Sub. | 2,414 | 5.0% | 2,457 | 5.3% | 42 | 1.8% |
| Overseas Sub. | 6,622 | 13.8% | 7,257 | 15.5% | 635 | 9.6% |
| Royalty Income | 177 | 0.4% | 141 | 0.3% | -35 | -20.0% |

# Analysis of Ordinary P/L Change



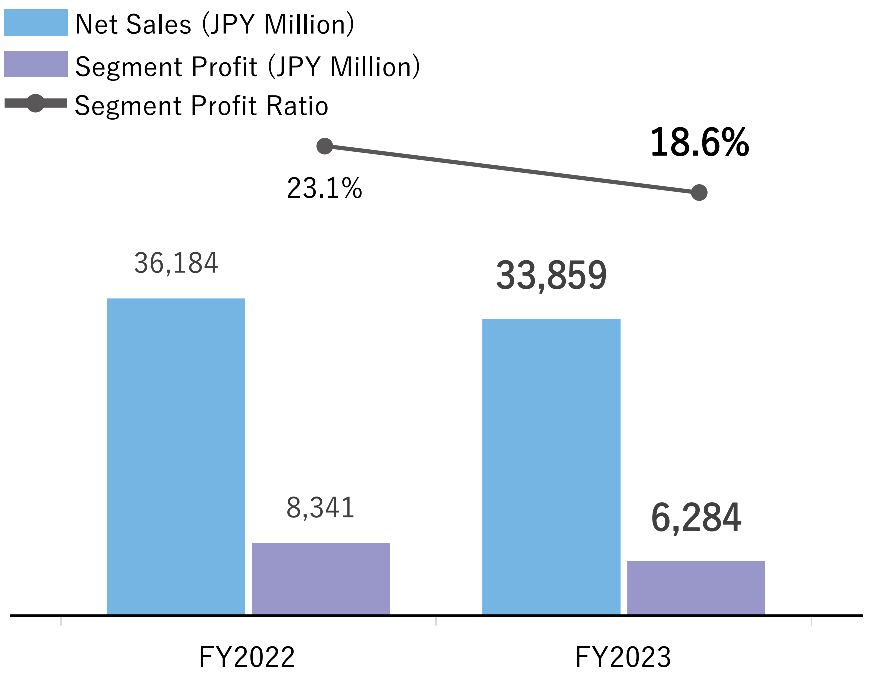
# FY2023 Consolidated Results by Segment

## Thermal Spray (TOCALO)

Although industrial machinery and other segments performed well, sales and income decreased due to a decline in the semiconductor and FPD fields

YoY Change Ratio

Net Sales ··· ··· ··· -6.4%
Segment Profit ··· -24.6%

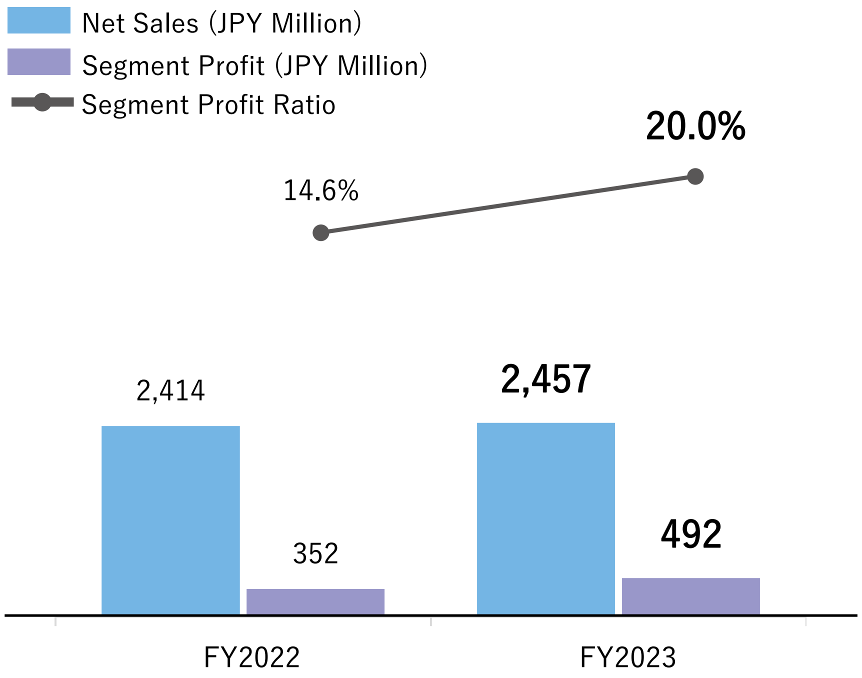



## Domestic Sub.

Sales and income increased as orders for cutting tools picked up due to improvements in automobile production

YoY Change Ratio

Net Sales ··· ··· ··· +1.8%
Segment Profit ··· +39.7%



# FY2023 Consolidated Results by Segment

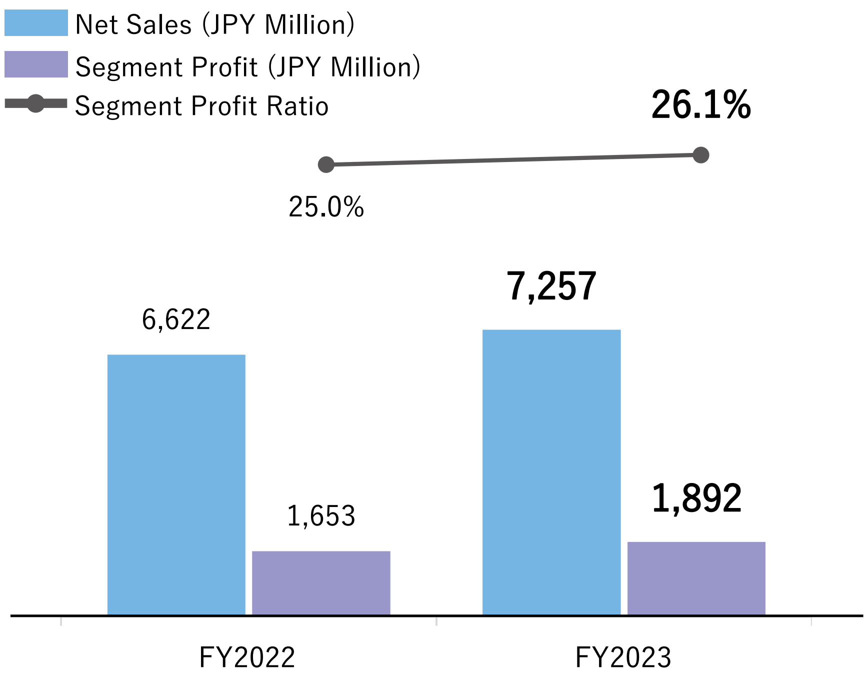
## Overseas Sub.

Although semiconductor-related sales in China were sluggish, sales and income increased due to steady sales in other fields

**YoY Change Ratio**

Net Sales ･･･ ･･･ ･･･ +9.6%

Segment Profit ･･･ +14.4%



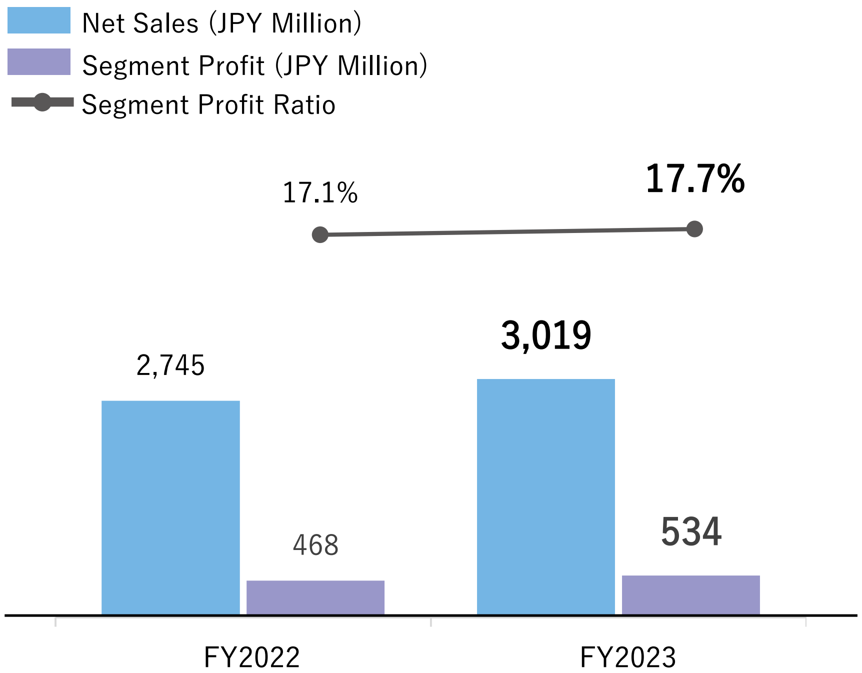

## Other Surface Modif.

Sales and income increased due to increased orders for agricultural machinery parts

**YoY Change Ratio**

Net Sales ･･･ ･･･ ･･･ +10.0%

Segment Profit ･･･ +14.2%



# Segment Information

- For Thermal Spray (TOCALO), profits significantly decreased due to a decrease in sales in the semiconductor field
- At Domestic Subsidiaries, profits grew as orders for mainstay cutting tools picked up
- At Overseas Subsidiaries, semiconductor-related sales were sluggish, but sales and income increased due to steady sales in other fields

| (JPY Million) | FY2022 | | FY2023 | | Change | | | |
|---|---|---|---|---|---|---|---|---|
| | | | | | Net Sales | | Segment P/L | |
| | Net Sales | P/L | Net Sales | P/L | Amount | % | Amount | % |
| Thermal Spray (TOCALO) | 36,184 | 8,341 | 33,859 | 6,284 | -2,324 | -6.4% | -2,056 | -24.6% |
| Domestic Sub. | 2,414 | 352 | 2,457 | 492 | 42 | 1.8% | 139 | 39.7% |
| Overseas Sub. | 6,622 | 1,653 | 7,257 | 1,892 | 635 | 9.6% | 238 | 14.4% |
| Other Surface Modif. | 2,745 | 468 | 3,019 | 534 | 273 | 10.0% | 66 | 14.2% |
| Total | 47,966 | 10,815 | 46,593 | 9,204 | -1,372 | -2.9% | -1,610 | -14.9% |

(Note) Royalty Income is not included in the Segment Net Sales

# Financial Position

- Total assets increased 3,600 million JPY from the end of the previous period (tangible fixed assets increased 2,000 million JPY)
- Equity ratio decreased 1.3 percentage points from the end of the previous fiscal year to 71.2%
- Interest-bearing debt decreased by 2,200 million JPY from the end of the previous period

| (JPY Million) | FY2022 | FY2023 |
|---|---|---|
| | 2H | 2H |
| Total Assets | 74,263 | 77,940 |
| Equity | 53,839 | 55,460 |
| Equity Ratio | 72.5% | 71.2% |
| Interest-bearing Debt | 2,802 | 5,002 |

# Cash Flow

TOCALO

- Free Cash Flow (Operating CF + Investment CF) +3,200 million JPY
- Investment CF/Acquisition of tangible fixed assets

  Previous term: -4,600 million JPY　　Current term: -4,700 million JPY
- Financial CF/Dividends paid

  Previous term: -2,800 million JPY　　Current term: -3,100 million JPY

  Acquisition and disposal of treasury shares

  Previous term: —　　Current term: -2,000 million JPY

| (JPY Million) | FY2022 Full year | FY2023 Full year |
|---|---|---|
| Operating CF | 9,894 | 7,877 |
| Investment CF | -5,094 | -4,634 |
| Financial CF | -4,561 | -3,241 |
| Cash Balance | 19,520 | 19,656 |

## 2. Forecast for FY2024

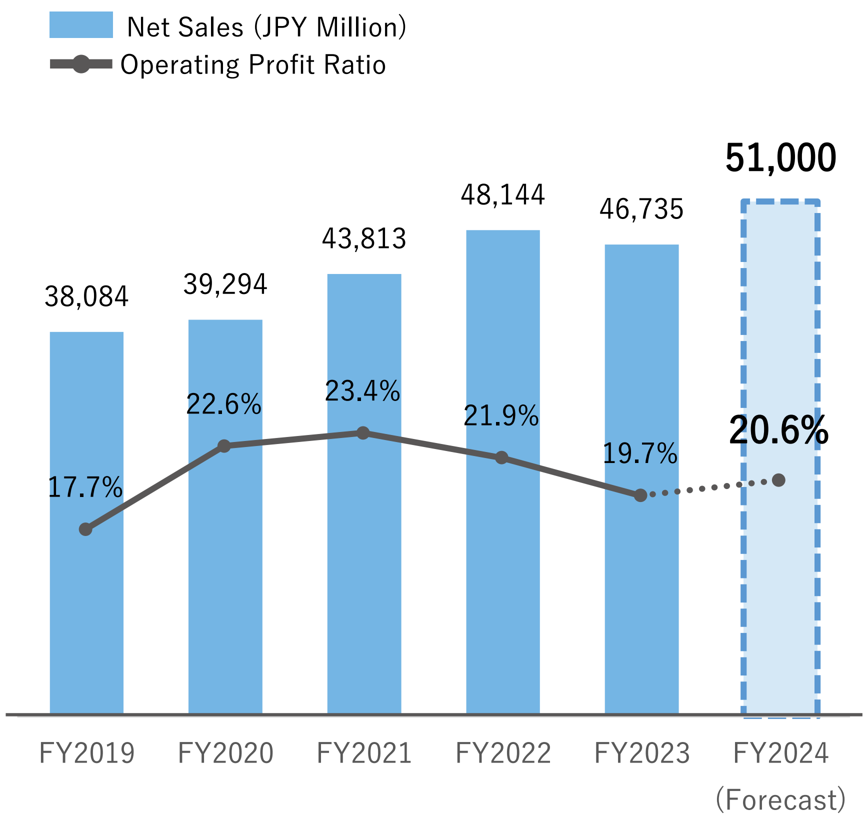
# Outlook for Net Sales and Ordinary Profit

POINT Net sales are expected to reach a record high due to a recovery in the semiconductor field

POINT Ordinary profit is expected to remain flat due to rising manufacturing costs, including increased labor costs

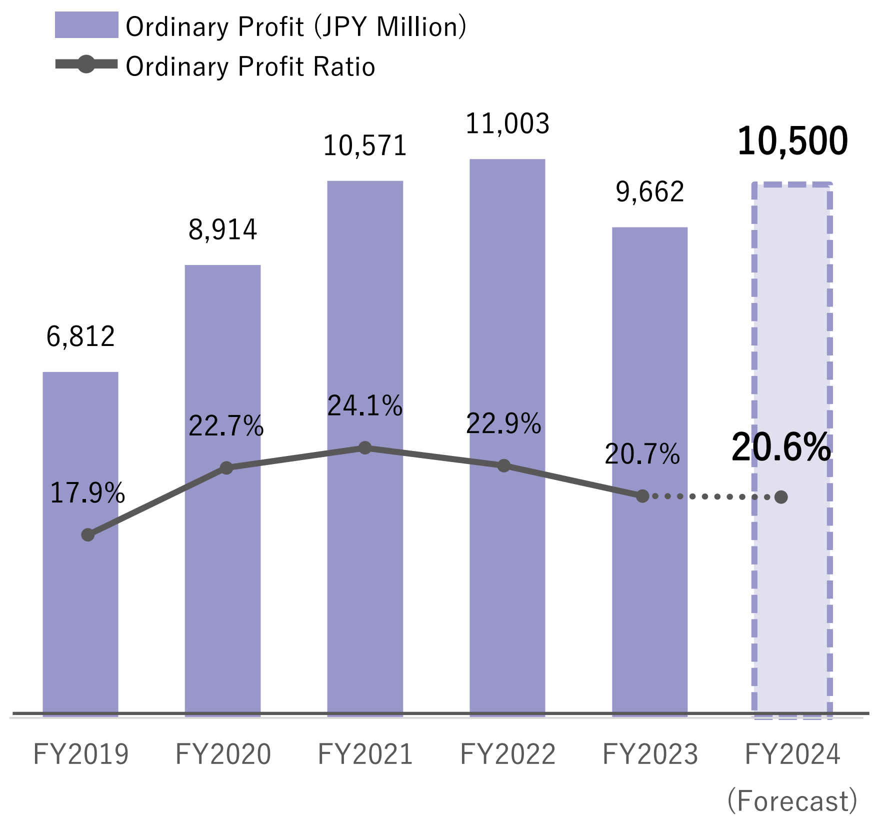
## Net Sales

Change +9.1%



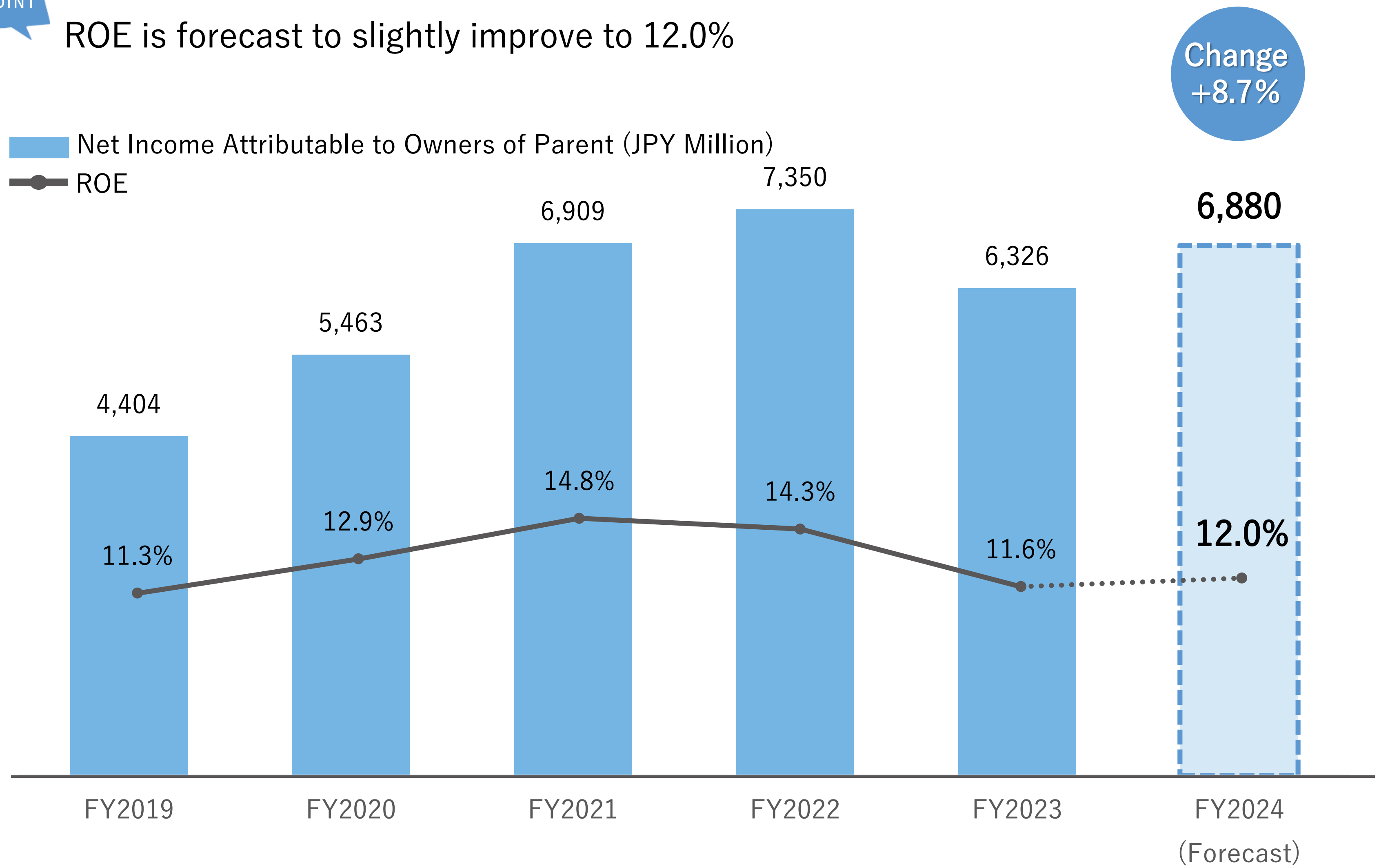

## Ordinary Profit

Change +8.7%



# Outlook for Net Income Attributable to Owners of Parent and ROE

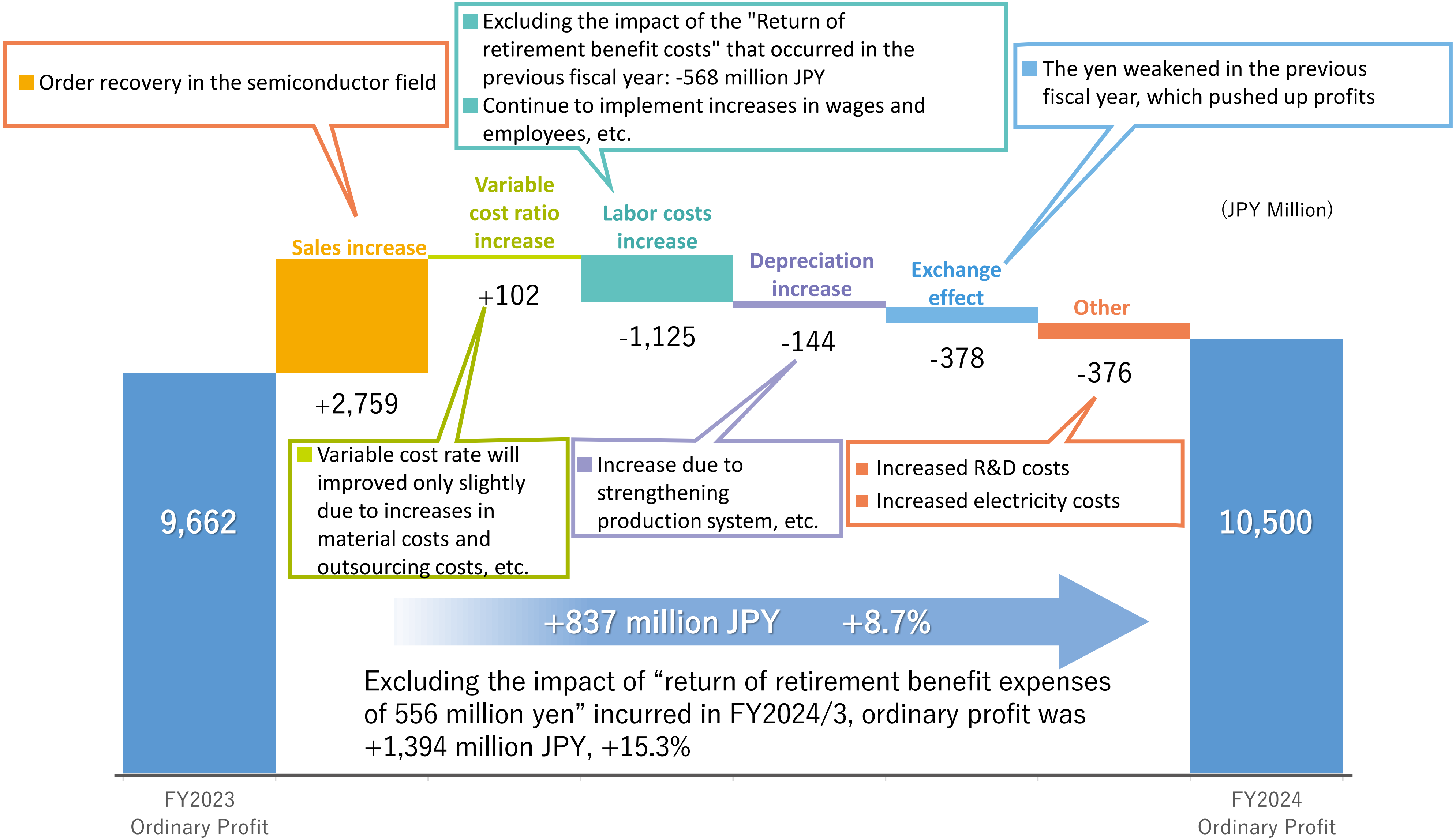
POINT
Net income attributable to owners of parent is forecast to increase by 8.7% YoY
ROE is forecast to slightly improve to 12.0%



# Consolidated Forecast FY2024

| (JPY Million) | FY2023 | | FY2024 | | Change | |
|---|---|---|---|---|---|---|
| | Result | Ratio | Forecast | Ratio | Amount | % |
| Net Sales | 46,735 | 100.0% | 51,000 | 100.0% | 4,264 | 9.1% |
| Thermal Spray (TOCALO) | 33,859 | 72.4% | 37,632 | 73.8% | 3,773 | 11.1% |
| Semicon & FPD | 19,557 | 41.8% | 23,005 | 45.1% | 3,447 | 17.6% |
| Industrial Parts | 4,923 | 10.5% | 4,603 | 9.0% | -320 | -6.5% |
| Iron & Steel | 3,651 | 7.8% | 4,037 | 7.9% | 385 | 10.6% |
| Others | 5,727 | 12.3% | 5,987 | 11.8% | 260 | 4.6% |
| Other Surface Modif. | 3,019 | 6.5% | 2,738 | 5.4% | -281 | -9.3% |
| Domestic Sub. | 2,457 | 5.3% | 2,708 | 5.3% | 250 | 10.2% |
| Overseas Sub. | 7,257 | 15.5% | 7,771 | 15.2% | 513 | 7.1% |
| Royalty Income | 141 | 0.3% | 150 | 0.3% | 8 | 5.8% |
| Operating Profit | 9,197 | 19.7% | 10,500 | 20.6% | 1,302 | 14.2% |
| Ordinary Profit | 9,662 | 20.7% | 10,500 | 20.6% | 837 | 8.7% |
| Net Income Attributed to Owners of Parent | 6,326 | 13.5% | 6,880 | 13.5% | 553 | 8.7% |
| Earnings Per Share (EPS) | 105.53JPY | — | 115.75JPY | — | 10.22JPY | — |
| Return on Equity (ROE) | 11.6% | — | 12.0% | — | 0.4pt | — |

# Consolidated Forecast FY2024
# Analysis of Ordinary Profit P/L Change

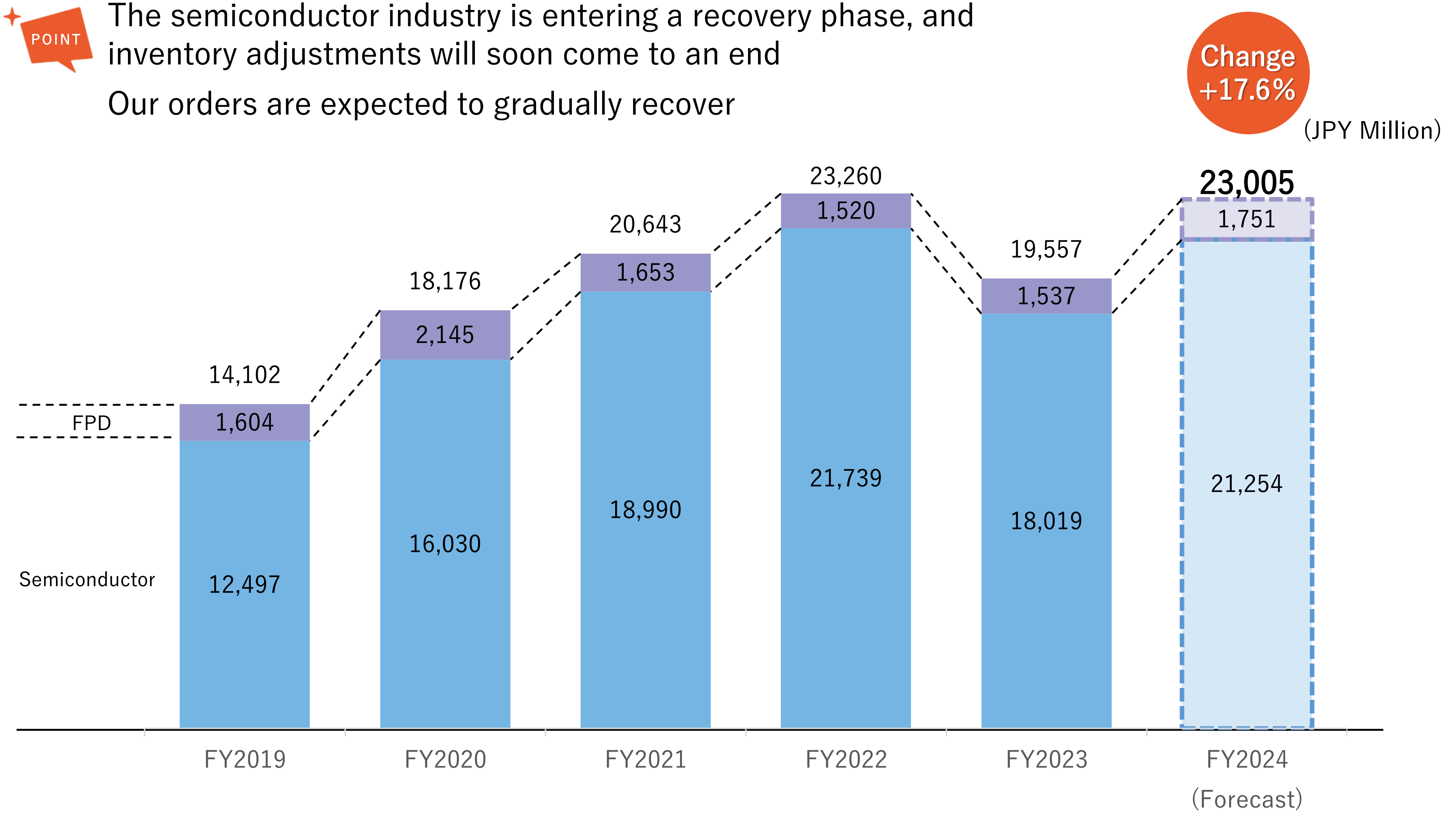


# Semiconductor & FPD Net Sales

POINT

The semiconductor industry is entering a recovery phase, and inventory adjustments will soon come to an end

Our orders are expected to gradually recover

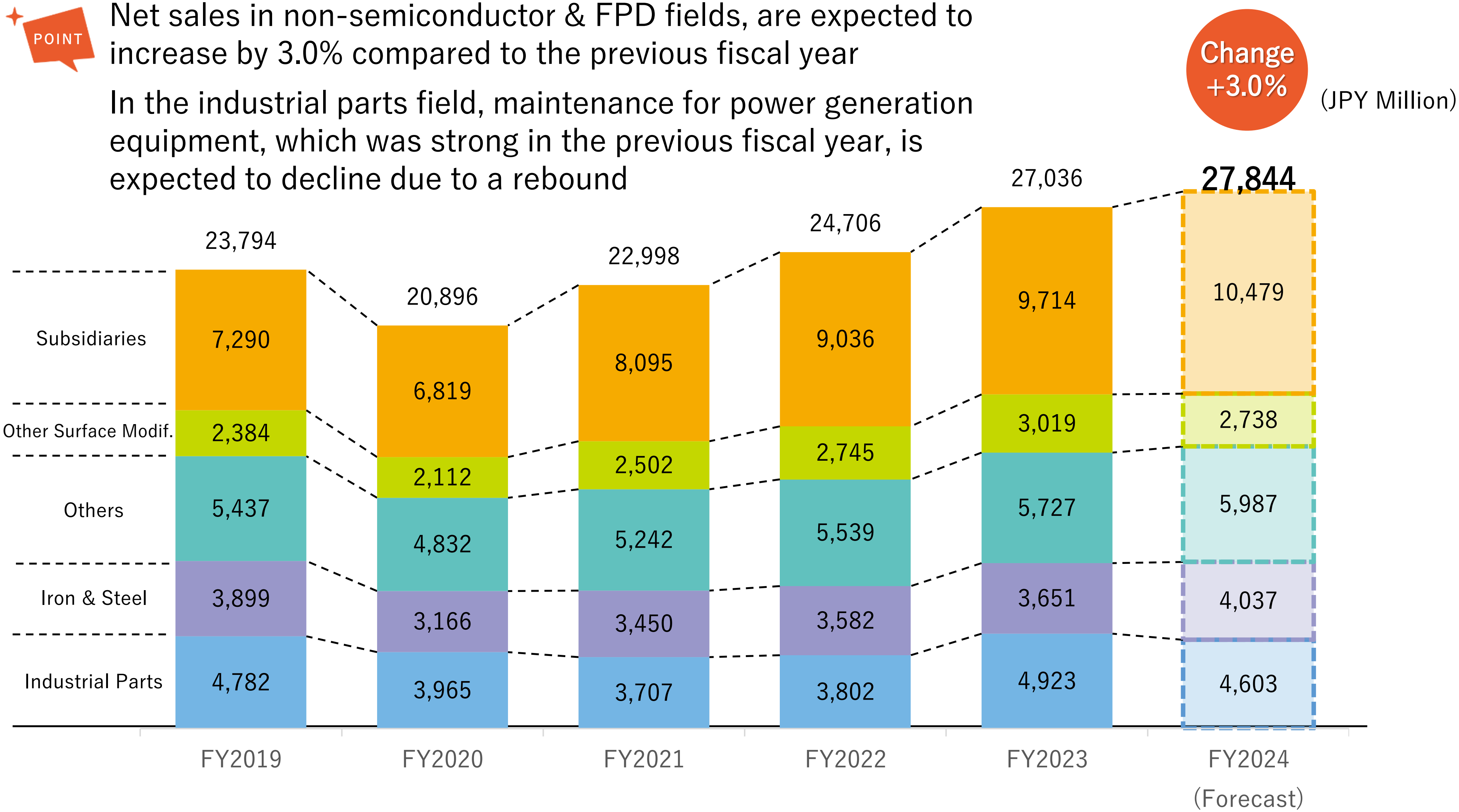


# Non-Semiconductor & FPD Net Sales

POINT

Net sales in non-semiconductor & FPD fields, are expected to increase by 3.0% compared to the previous fiscal year

In the industrial parts field, maintenance for power generation equipment, which was strong in the previous fiscal year, is expected to decline due to a rebound



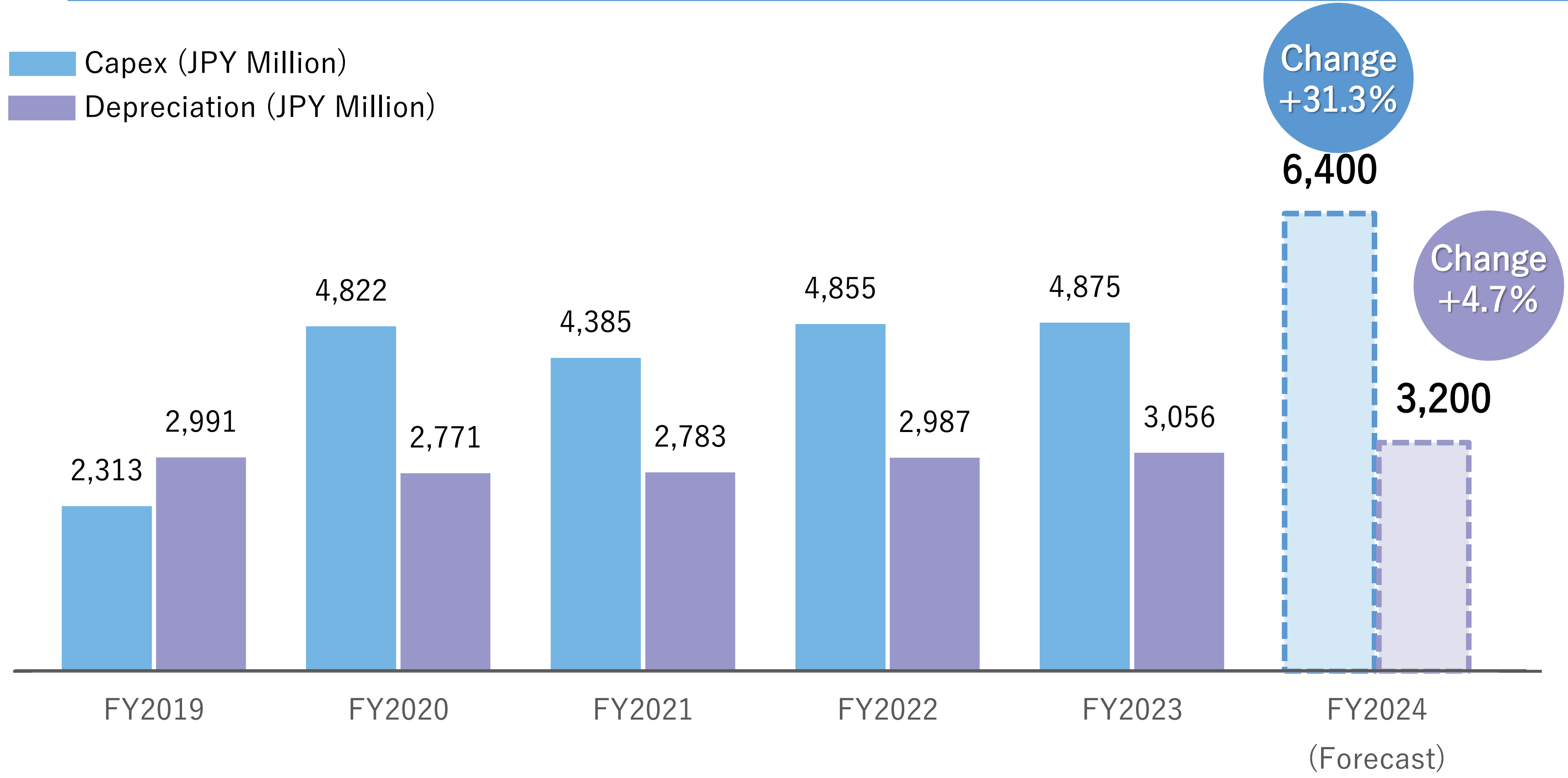

(Note) Royalty Income is not included in the Segment Net Sales

# Capital Investment and Depreciation

POINT

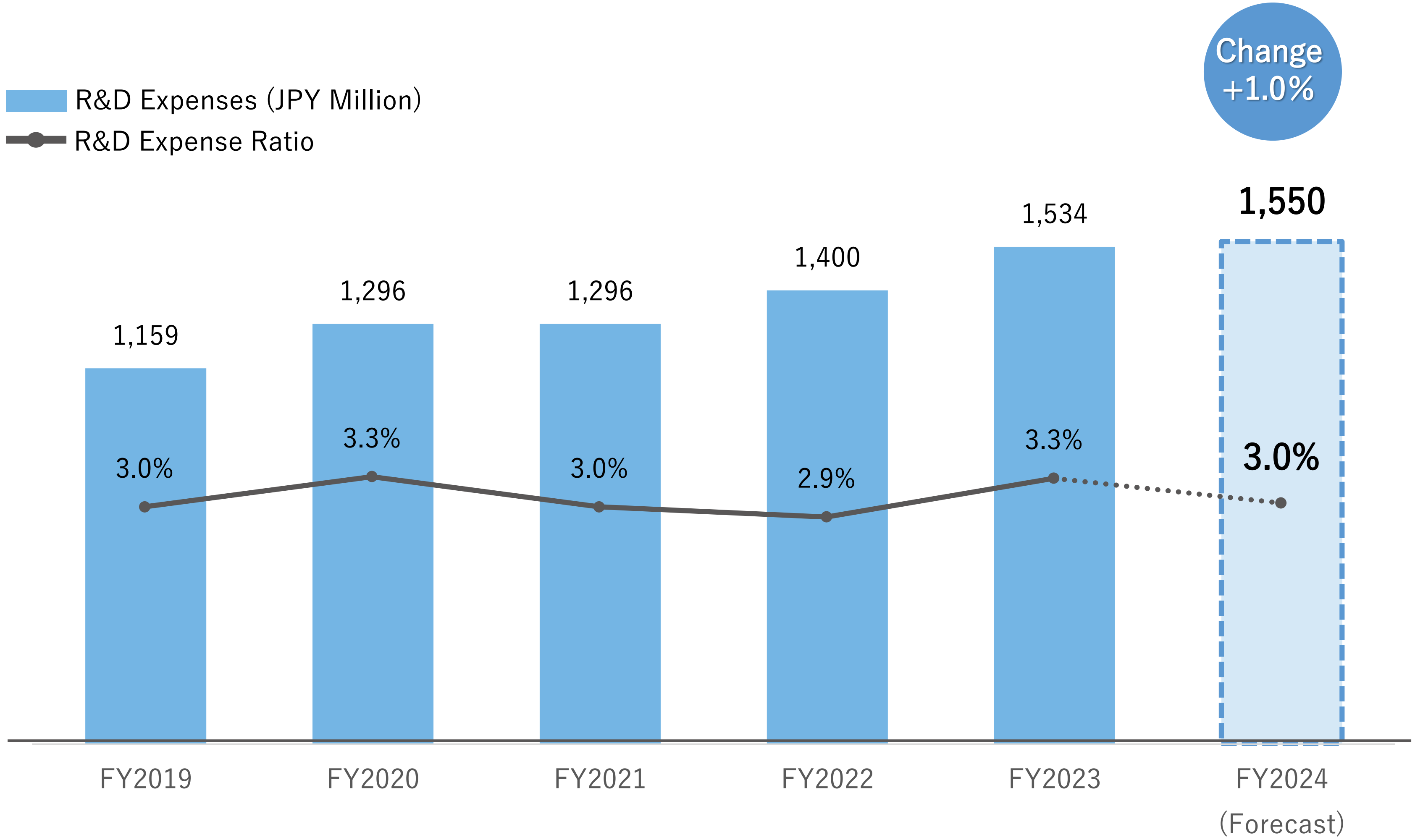
Planned capex for FY2024: 6,400 million JPY

- Tocalo 5,000 million JPY: Construction of new buildings at the Kobe Plant, increasing production and production efficiency, and strengthening research facilities, etc.
- Domestic Subsidiaries 400 million JPY: Increasing production capacity, etc.
- Overseas Subsidiaries 1,000 million JPY: Launch of new factories at TOCALO & HAN TAI (Kunshan) and at TOCALO & HAN TAI (Taiwan)



# R&D Expenses

POINT R&D expenses will be maintained at around 3% of consolidated net sales

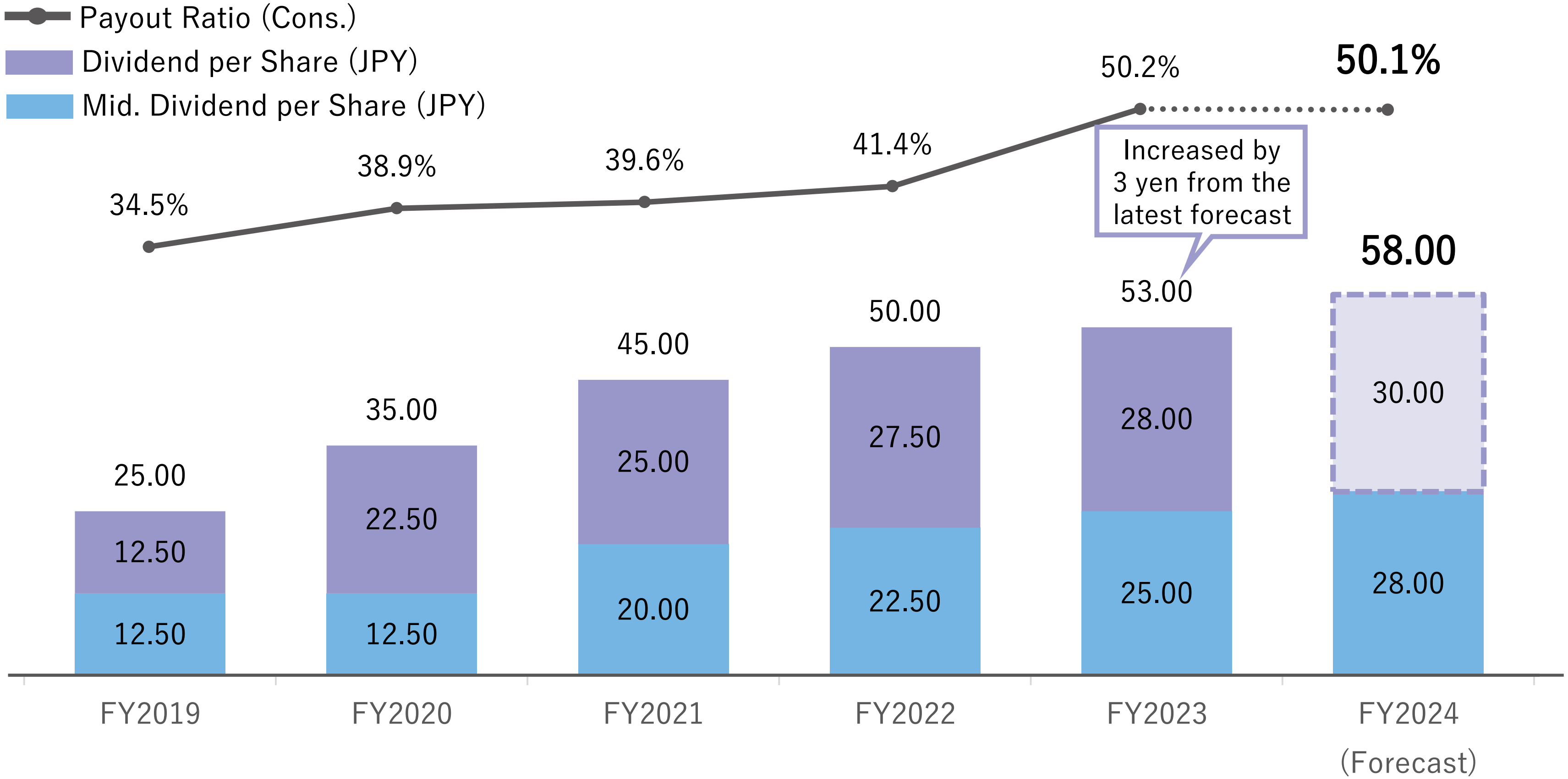


# Dividends

POINT An annual dividend of 58JPY is planned for FY2024 (a dividend payout ratio of 50.1%)

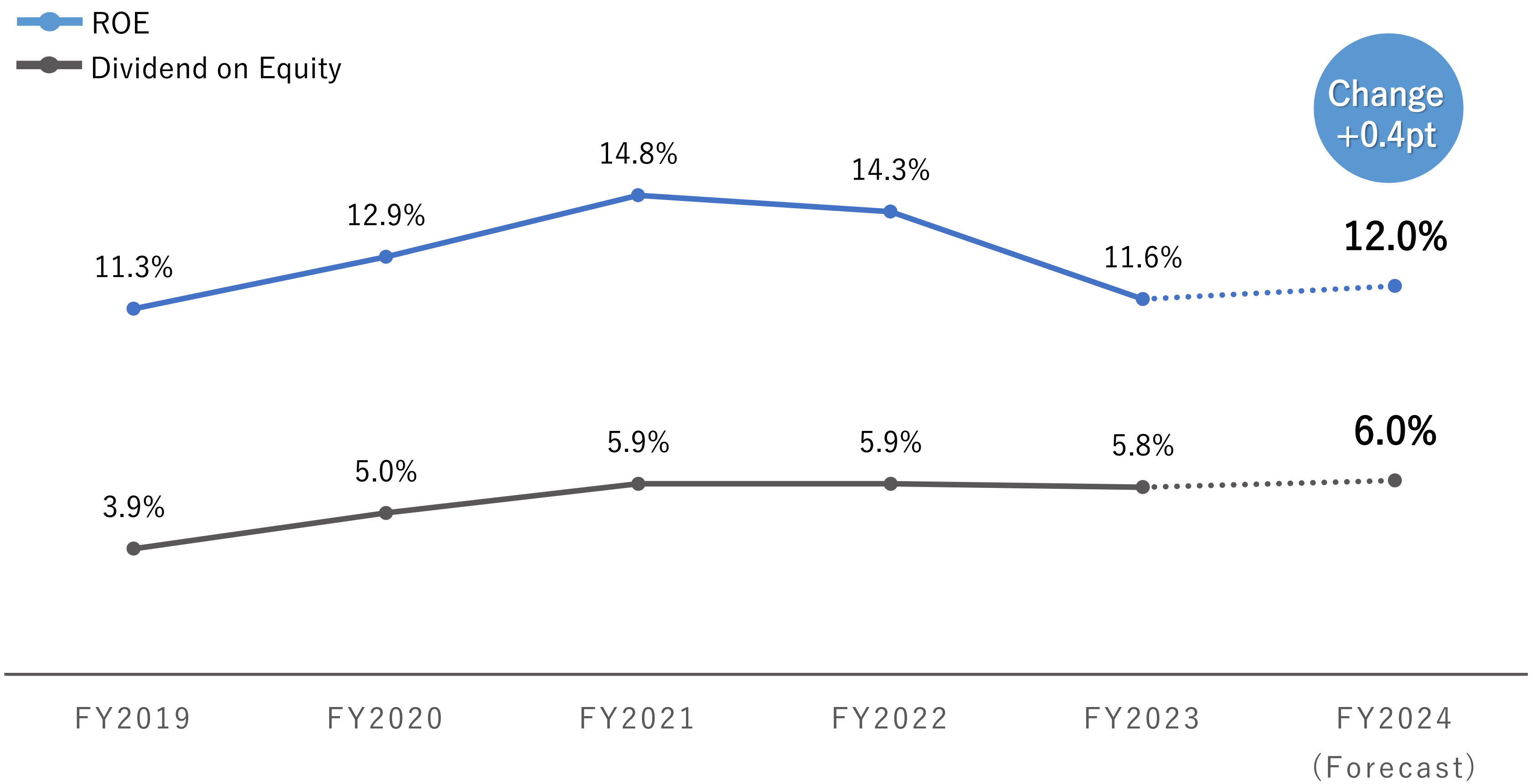
**Shareholder Return Policy**

- We are targeting a consolidated dividend payout ratio of around 50%, and a dividend on equity (DOE) ratio of at least 5%
- Acquisition of treasury stock will also be flexibly conducted, taking into consideration the business environment and the company's financial situation



# ROE and Dividend on Equity

POINT Along with improvements to ROE,* the dividend on equity* ratio is expected to be around 6%




* ROE (Return on Equity) = Net income / Average equity during the period

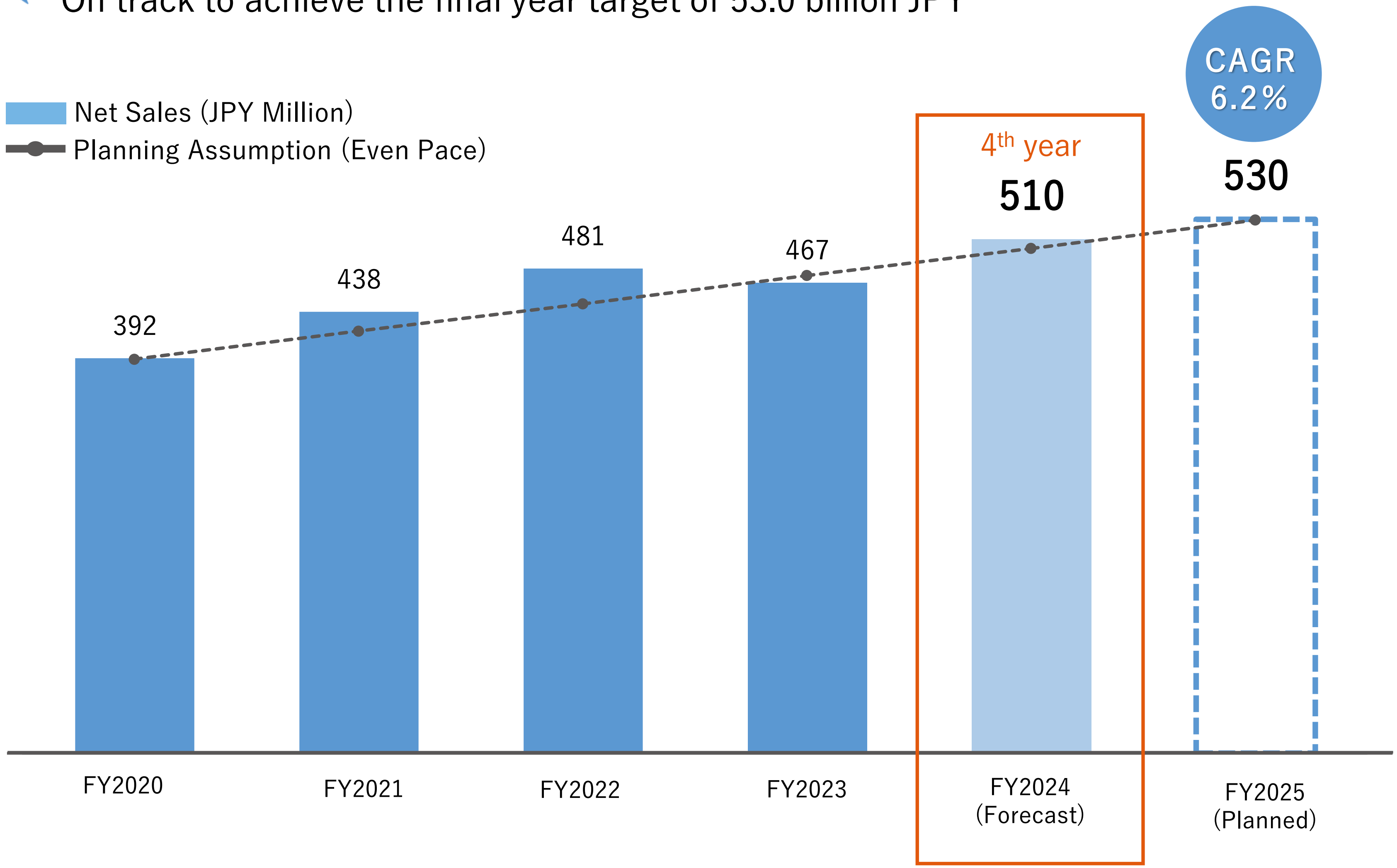
* Dividend on Equity = Dividend per share / Average net assets per share during the period (= ROE × Dividend payout ratio)

# 3. Progress of Medium-term Management Plan

# Progress of Medium-term Management Plan (Net Sales)

POINT

The net sales forecast for FY2024 slightly exceeds the plan
On track to achieve the final year target of 53.0 billion JPY

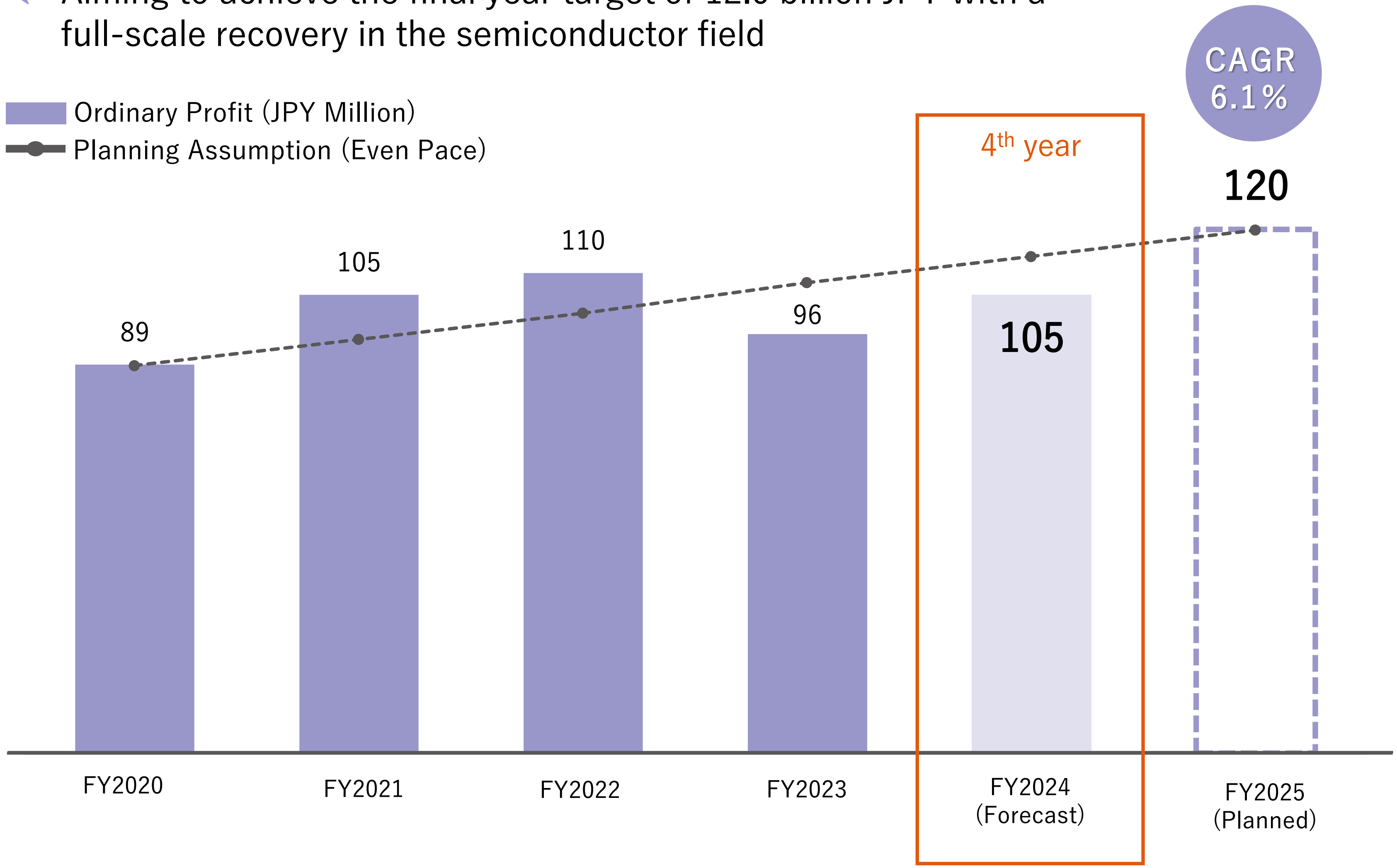


# Progress of Medium-term Management Plan (Ordinary Profit)

POINT

Ordinary profit as forecast for FY2024 is behind the plan

Aiming to achieve the final year target of 12.0 billion JPY with a full-scale recovery in the semiconductor field

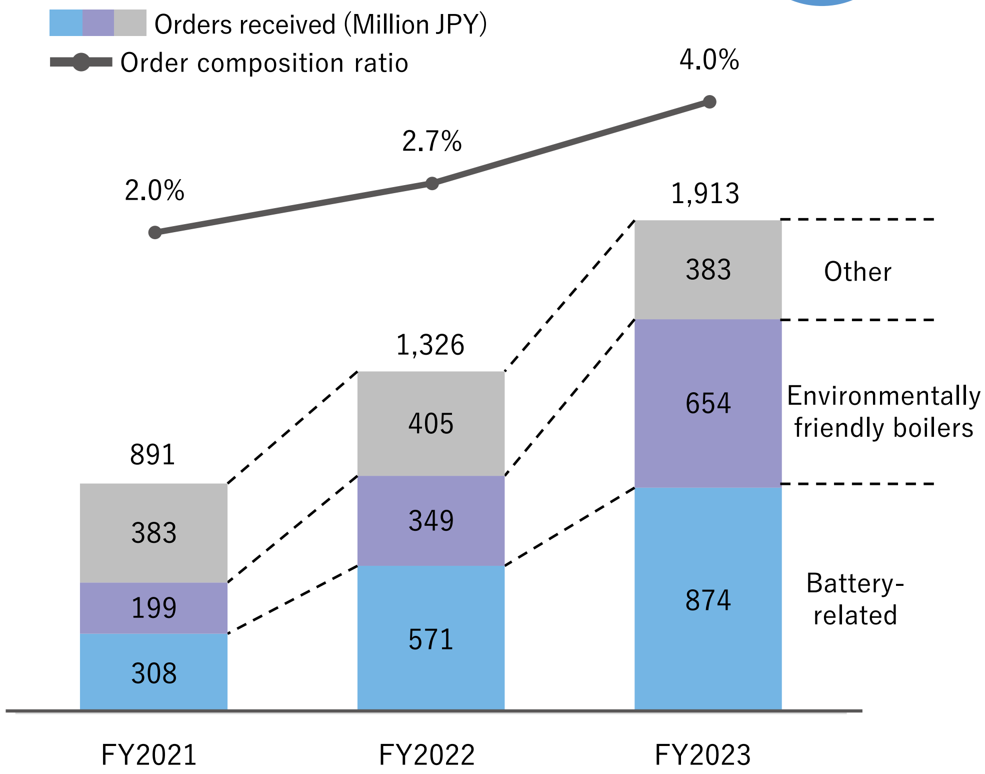


# Order Trends in the Environmental Field

POINT Significant growth in the processing of battery-related equipment and in environmentally friendly boilers

## Environmental Energy Equipment

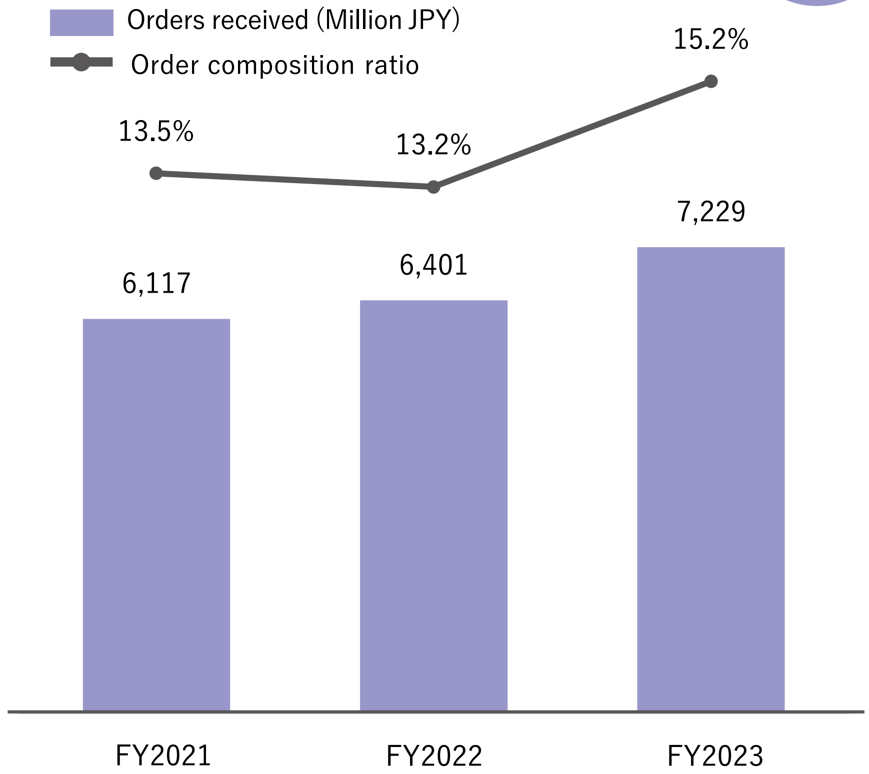
Change +44.2%




POINT Processing for repairing and remanufacturing customer equipment and parts is also steadily growing

## Repairs/Remanufactured Products

Change +12.9%



# 4. Achieving Management Conscious of Cost of Capital and Stock Price

TOCALO

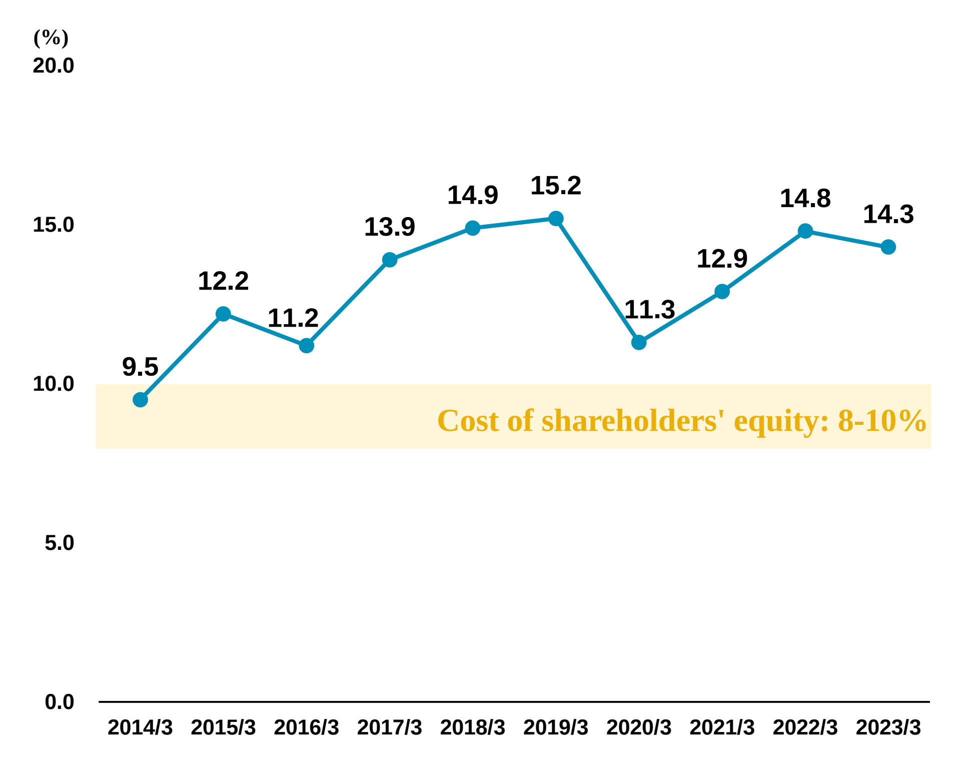
The Company recognizes that we have been able to maintain a return on capital that exceeds shareholders' expectations, as our ROE has exceeded the cost of shareholders' equity for the last nine years. As a result, we have earned a certain level of market valuation and have been able to maintain a stable PBR of more than 1.

## Our cost of shareholders' equity

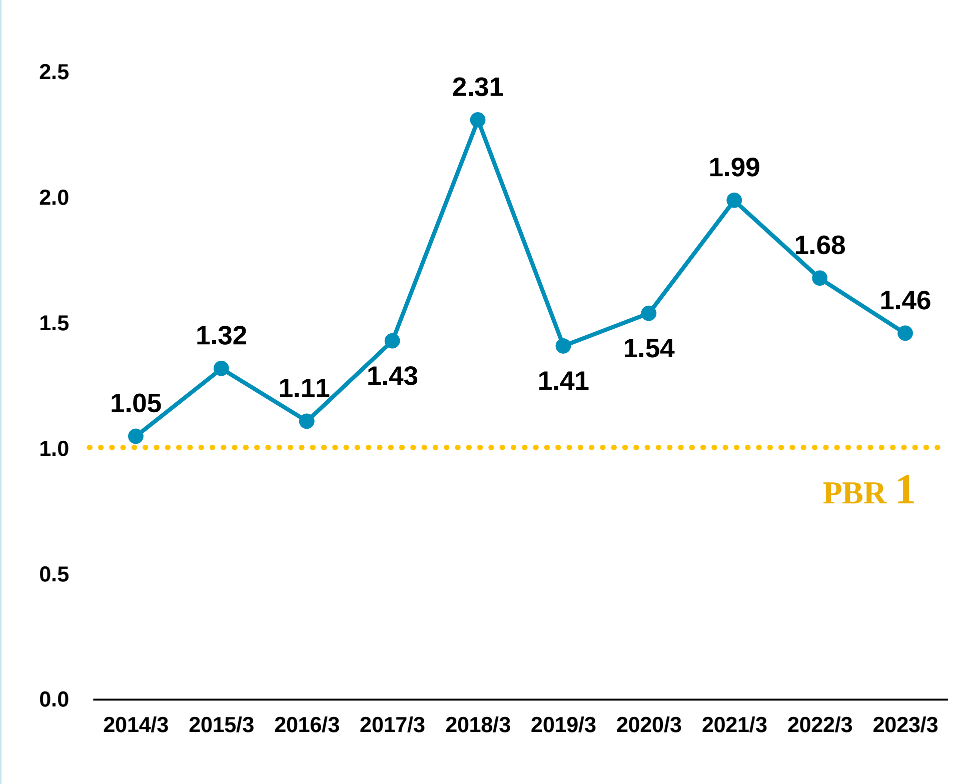
**8-10%** (Reference value) **(Approx.)**

Based on a comprehensive consideration of the figures calculated for the Company by securities firms using generally accepted calculation methods as well as the Company's expected rate of return calculated by securities analysts, the Company's required cost of shareholders' equity is considered to be approximately 8-10%.

### ● Changes in ROE




### ● Changes in PBR

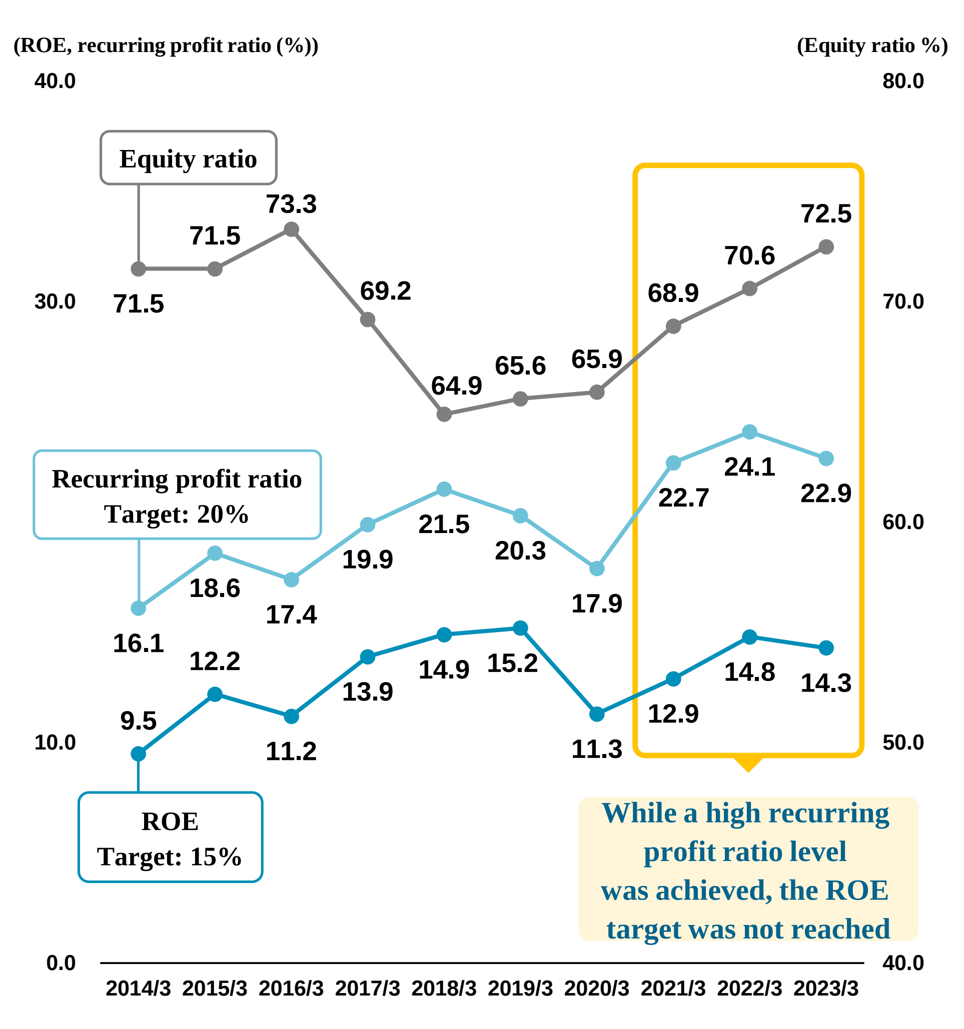


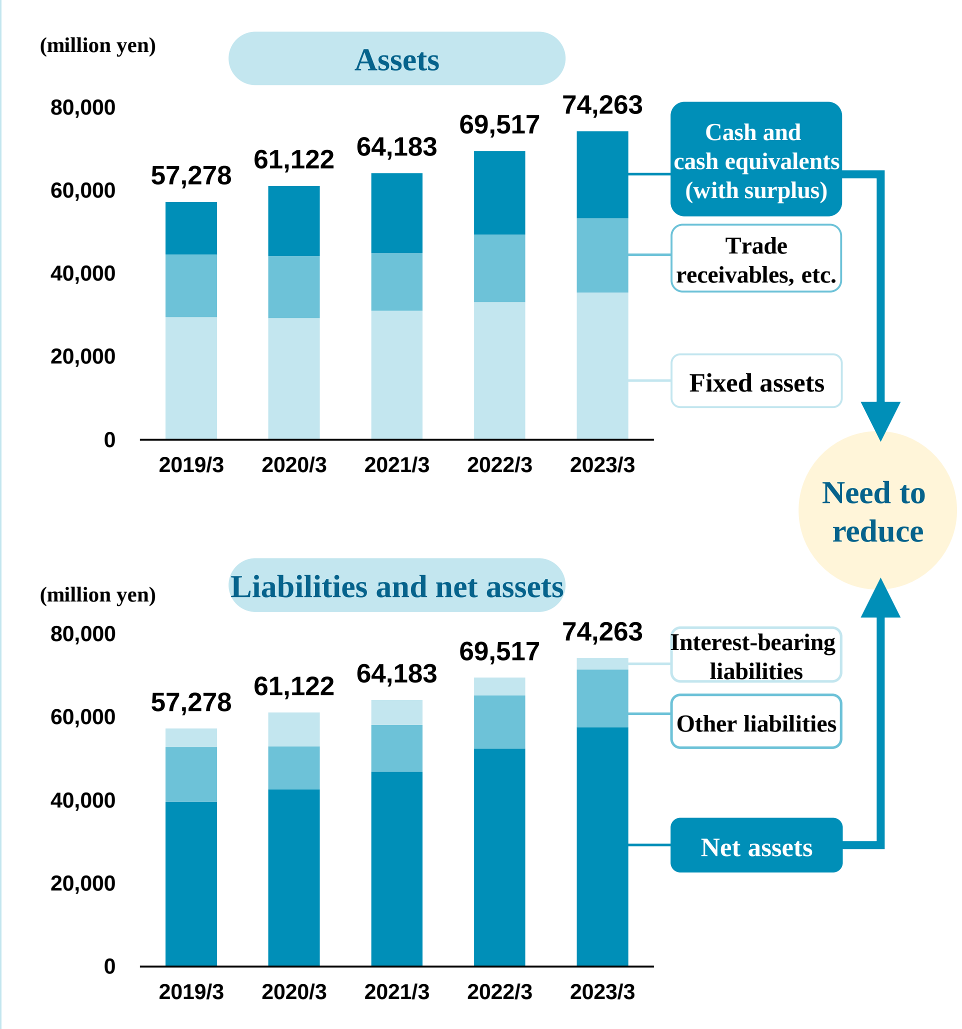
# Identification of Issues

While the Company's PBR has remained stable at more than 1, ROE has fallen short of the target due to the impact of the accumulation of equity as a result of steady performance progress. Going forward, we believe it is necessary to take proactive measures to improve capital efficiency with respect to assets held by the Company.

## • Changes in key indicators




## • Balance sheet status



TOCALO

The Company will achieve a stable ROE of 15% through three measures to further increase the value of shareholders' equity.

Target

# Achieve a stable ROE of 15%

Response measures

**1 Improvement of profitability**

- **Establish our presence as a top manufacturer for surface modification, centered on thermal spraying**
  Expand our business by developing new coatings and creating new markets, without relying on existing markets
- **Enhance quality control and improve productivity**
  Make manufacturing processes more sophisticated and efficient by promoting automation and IoT, developing new coating equipment, and other means
- **Ensure technological superiority and improve profitability**
  Continue capital investment (5-7 billion yen per year) and development investments (about 5% of net sales ratio)

**2 Optimization of cash and cash equivalents level**

- **Optimization of cash and cash equivalents level (gradual reduction)**
  While maintaining a strong financial structure to support active investment in production expansion and technology development, the Company will pursue optimal cash and cash equivalent levels to improve capital efficiency going forward. We will use operating CF plus excess cash and cash equivalents as a source of funds to actively allocate to investment in growth (capital investment, development investment, human capital investment, M&As, etc.) and dividends, and will consider additional shareholder returns if there are no urgent capital needs for the remaining resources.

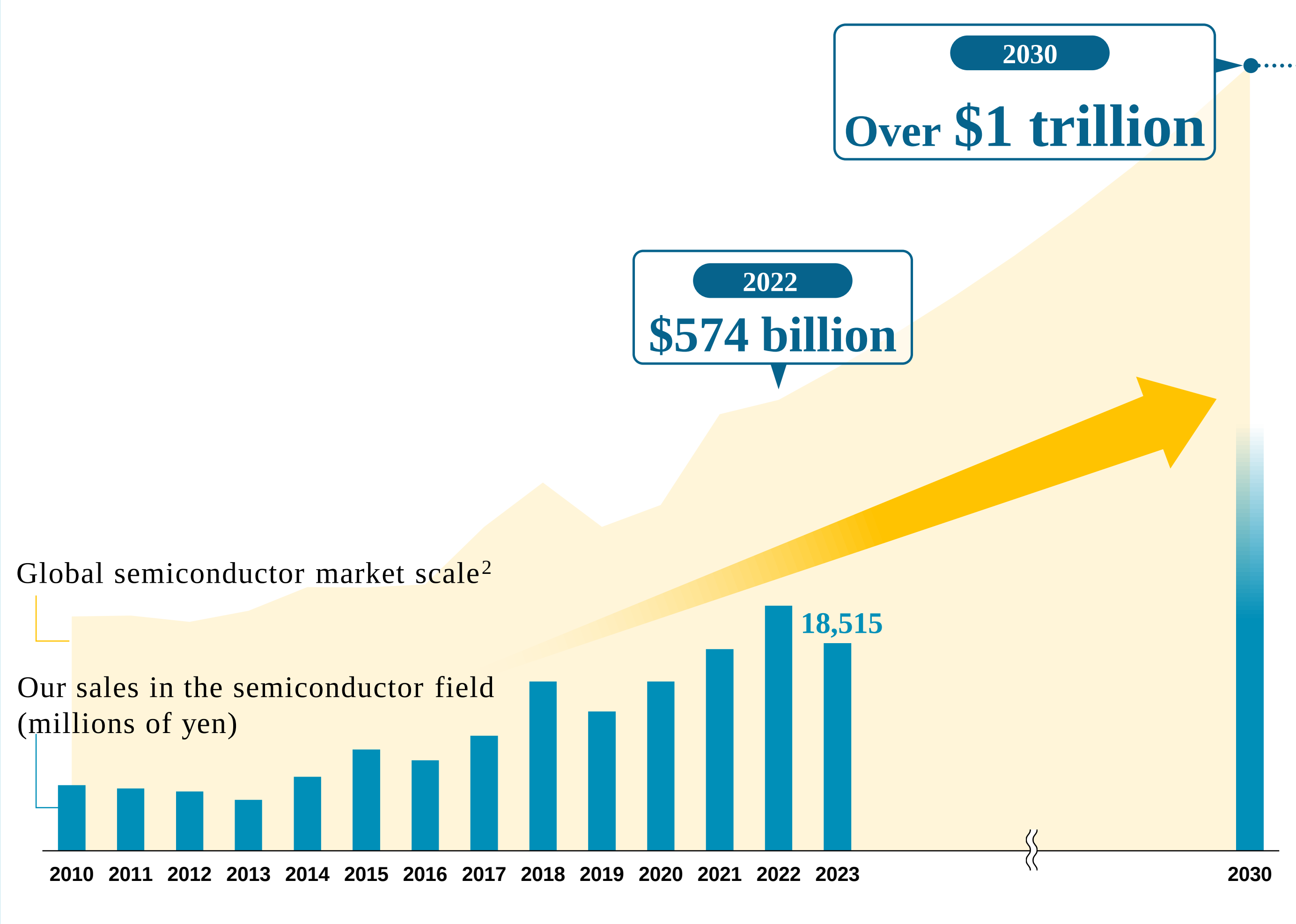
**3 Strengthening of shareholder returns**

- **Maintain a high and stable level of dividends**
  Target a consolidated dividend payout ratio of about 50% (41.4% in the FY ended March 31, 2023) and a dividend on equity (DOE) ratio of 5% or more.
- **Consider flexible acquisition of own shares**

In the semiconductor field,[1] we will leverage our strength of having the largest market share in Japan to convert market expansion into business growth. Also, by continuing capital investment and development investment, we aim to develop new solutions that respond to the evolution of semiconductor technology.

## ● Changes in the scale of the semiconductor market and our sales




### Market has grown about two-fold
(2022→2030)

Tailwind from growing demand for generative AI, automated driving, EVs, etc.

**Achieve business growth**

### Semiconductor technology evolves along with market expansion

Via active investment and development, without staying in existing areas

**Explore new areas**

## Support advanced technologies

1. Processes that add dust prevention (plasma resistance) and electrostatic adsorption functions to semiconductor manufacturi ng equipment parts.
2. Compiled by the Company based on the World Semiconductor Market Statistics (WSTS), translated by the Japan Electronics and Information Technology Industries Association.

TOCALO

We will expand our business by developing the environment and energy fields as our next markets after semiconductors. As the importance of reducing environmental impact and saving conservation grows as needs of customers (manufacturers), we will provide high value-added products to customers with our proprietary technologies.

## Surface modification* functions

- Corrosion resistance
- Wear resistance
- Environment isolation
- Oxidation resistance
- Heat resistance
- Plasma resistance
- Conductivity/electrical insulation
- Sensing
- Seizure resistance
- Lubricity, gripping
- Oil retention, etc.

**Matching**

## Customer needs

- Improvement of productivity
- Improvement of product quality
- **Response to environmental and social issues**
  - **Reduction of environmental impact**
  - **Energy conservation**
  - **Health and safety**

## Contribute to an abundant future for people and nature

*Technology to give new properties and functions to various products and production facilities by coating and processing with functional materials.

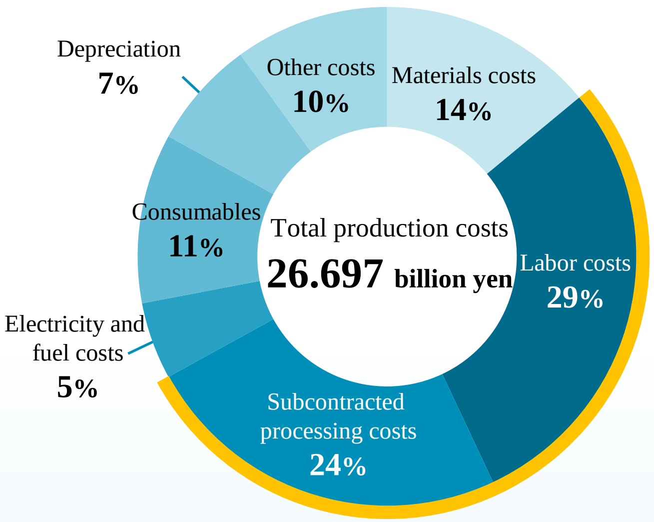
TOCALO

While our surface modification processes are labor-intensive, they have a low affinity for full automation due to the large number of custom-made specifications. Therefore, in order to improve profitability, it is necessary to promote enhanced sophistication and efficiency in appropriate manufacturing processes that can be expected to be effective.

## • Features of our surface modification process

### Labor-intensive business structure

**Breakdown of production costs**
**(FY ended 3/2023, non-consolidated)**




**Labor and subcontracted processing costs account for the majority**

**Thermal spraying process (example)**

Arrival of goods

- Arrival inspection
- Masking
- Roughening treatment
- Thermal spraying
- Maintenance and inspection
- Polishing
- Cleaning and drying
- Shipping inspection

Packing and shipping

Large amount of highly skilled work

### Custom-made operations for each customer

**Custom-made specifications according to customer requirements**

**High-mix, low-volume production**

**Difficult to automate completely**

## Reduce dependence on human resources through automation and IoT by carefully identifying operations that can be improved.

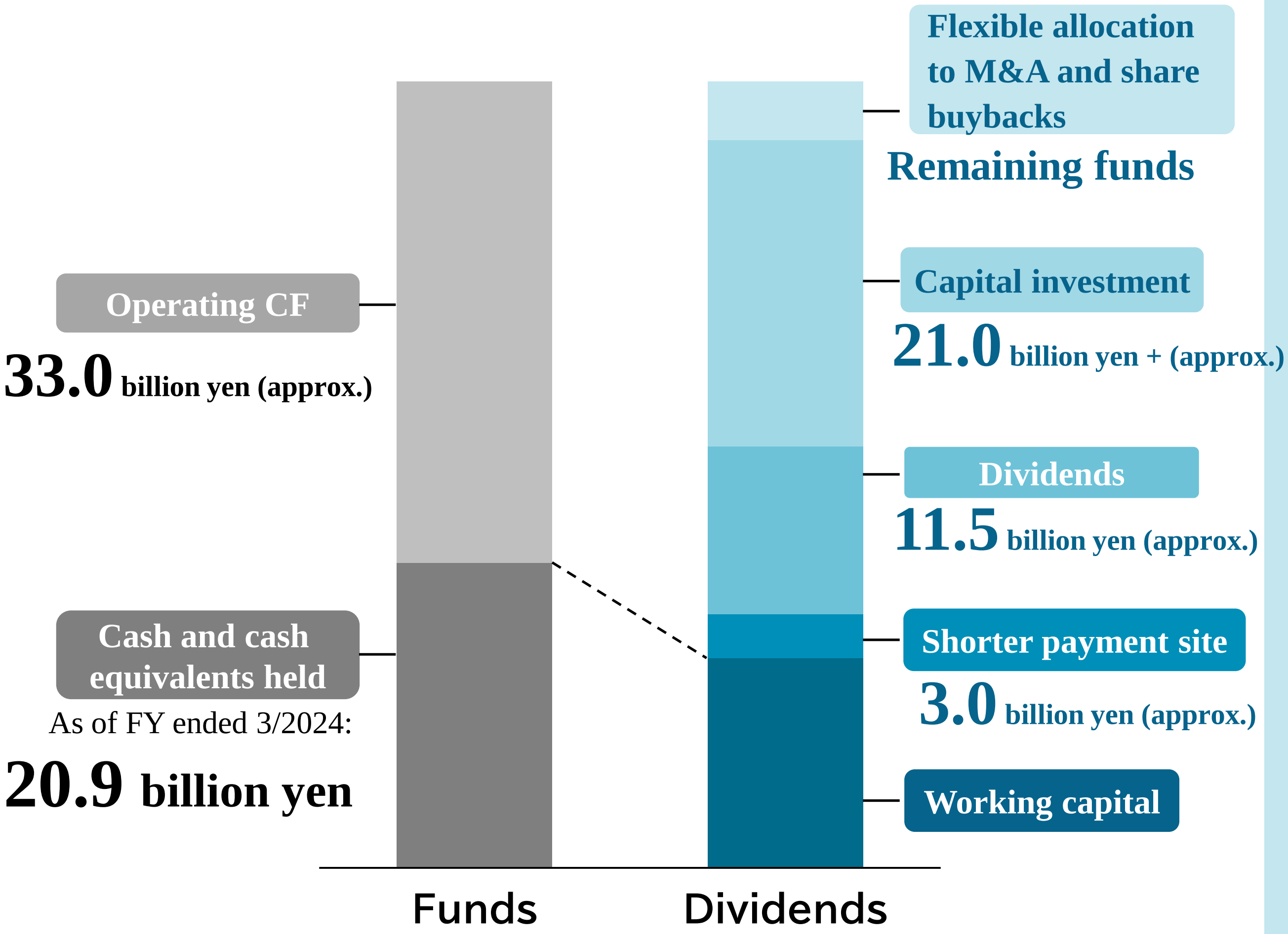
## Improve productivity and strengthen quality control

# ② Optimization of cash and cash equivalents level

The Company will pursue an optimal cash and cash equivalents level in order to improve capital efficiency. We will use operating CF plus excess cash and cash equivalents as a source of funds to actively allocate to growth investments and dividends, and consider additional shareholder returns if there are no urgent capital needs for the remaining funds.

- **Capital allocation policy (FY2025/3 - FY2027/3)**




Cash on hand is essential to enable flexible investment.

**The optimal level of cash and cash equivalents**

will be determined in stages.

||

**Balance between stable financial structure and high ROE**

# Main capital investments from FY2025/3 to FY2027/3 (Forecast)

TOCALO

With a focus on expanding the semiconductor & FPD fields, where market growth is expected to continue, we will carry out three-pronged capital investment: (1) construction of new plant buildings, (2) introduction of advanced production equipment, and (3) introduction of research equipment.

## (1) Construction of new plant buildings

| | | |
|---|---|---|
| New plant building at the Kobe Plant | **1.3** billion yen | **In the semiconductor and medical fields, etc., expand the application of other surface modifications and improve production efficiency**<br>Construction to begin in May 2024, to be completed in March 2025 |
| New plant building at the Suzumi Workshop of the Tokyo Plant | **5.6** billion yen | **Increase production capacity in anticipation of increased orders from semiconductor manufacturing equipment manufacturers**<br>Construction to begin in August 2024, to be completed in April 2026; operation in early 2027 after equipment installation and customer certification |
| New plant building at the Kitakyushu Plant | **3.2** billion yen | **Increase production capacity in anticipation of increased orders from semiconductor manufacturing equipment manufacturers**<br>Construction to begin in December 2024, to be completed in July 2026; operation in spring 2027 after equipment installation and customer certification |

## (2) Introduction of advanced production equipment

| | | |
|---|---|---|
| Advanced equipment designed for automation, manpower saving, and high functionality | **1.2** billion yen | **Improve productivity and strengthen quality control by introducing advanced production equipment that realizes automation, manpower saving, etc.** |

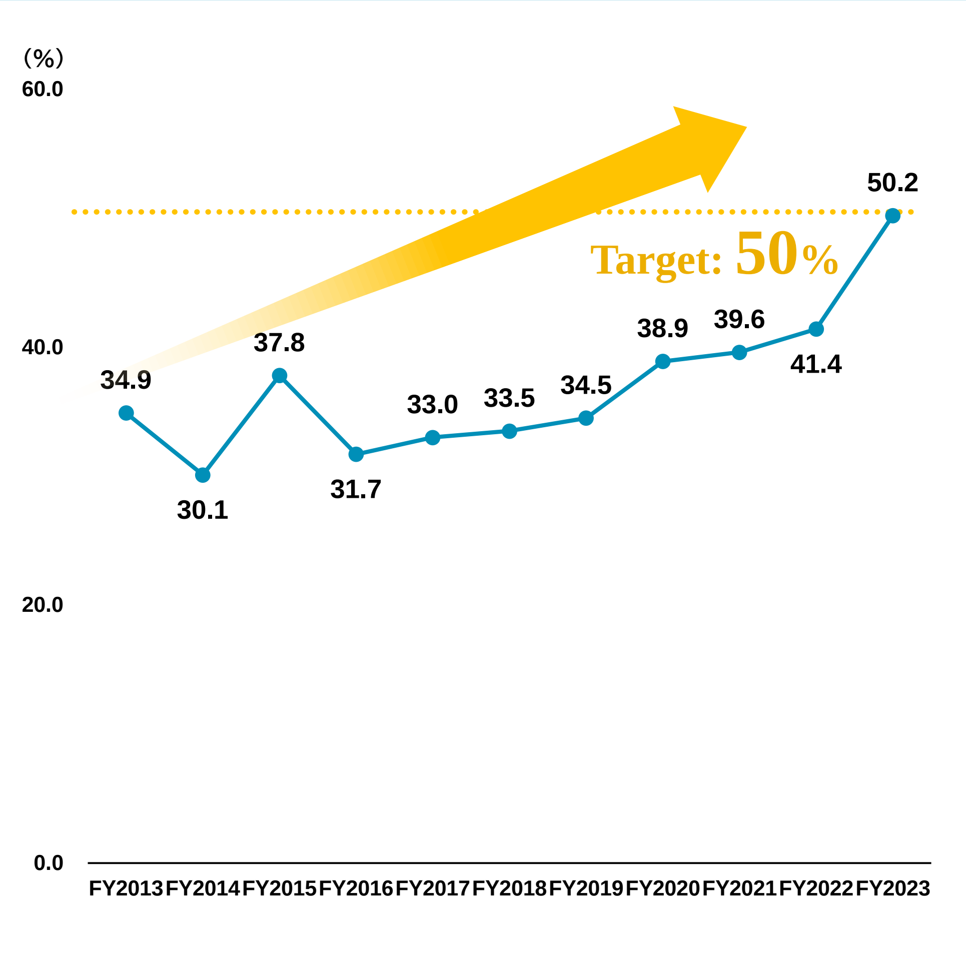
## (3) Introduction of research equipment

| | | |
|---|---|---|
| Research equipment, measurement and evaluation facilities for next-generation technology development | **1.0** billion yen | **Introduce research equipment, etc. for the development of next-gen coatings to respond to the miniaturization and multilayering of semiconductors and to develop new business areas.** |

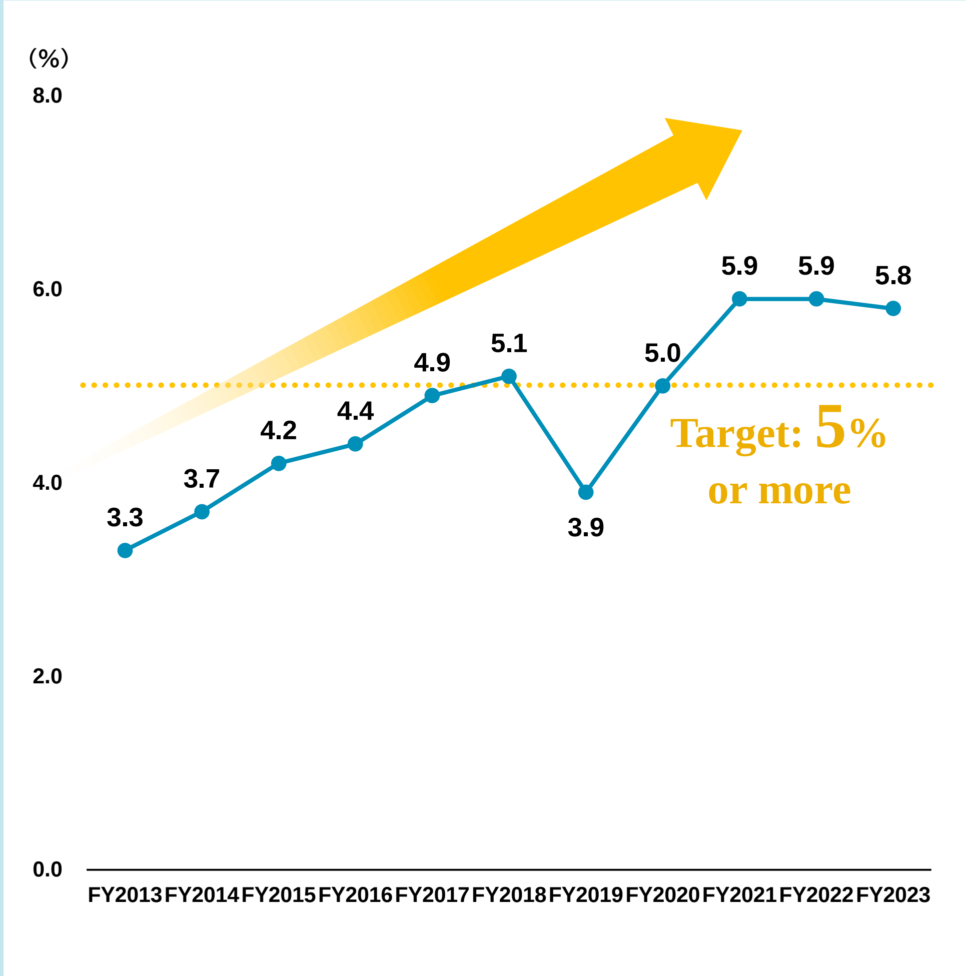
(Note) The above does not include renewal investment, etc.

The Company's target for a consolidated dividend payout ratio is about 50% (41.4% in the fiscal year ended March 31, 2023) and a dividend on equity (DOE) ratio of 5% or more, aiming for a high and stable level of dividends. We will also consider flexibly implementing acquisition of its own shares.

● Changes in consolidated dividend payout ratio




● Changes in DOE



# Financial Highlights

| (Million JPY) | FY2019 Result | FY2020 Result | FY2021 Result | FY2022 Result | FY2023 Result | FY2024 Forecast |
|---|---|---|---|---|---|---|
| Orders Received | 38,011 | 39,021 | 45,394 | 48,419 | 47,505 | — |
| Backlog of Orders | 6,195 | 6,143 | 7,896 | 8,349 | 9,260 | — |
| Net Sales | 38,084 | 39,294 | 43,813 | 48,144 | 46,735 | 51,000 |
| Operating Profit | 6,727 | 8,890 | 10,255 | 10,558 | 9,197 | 10,500 |
| Ordinary Profit | 6,812 | 8,914 | 10,571 | 11,003 | 9,662 | 10,500 |
| Ordinary Profit Ratio | 17.9% | 22.7% | 24.1% | 22.9% | 20.7% | 20.6% |
| Net Income Attributed to Owners of Parent | 4,404 | 5,463 | 6,909 | 7,350 | 6,326 | 6,880 |
| Earnings Per Share (EPS) | 72.45JPY | 89.86JPY | 113.62JPY | 120.83JPY | 105.53JPY | 115.75JPY |
| Total Assets | 61,122 | 64,183 | 69,517 | 74,263 | 77,940 | 83,100 |
| Equity | 40,263 | 44,201 | 49,099 | 53,839 | 55,460 | 59,000 |
| Equity Ratio | 65.9% | 68.9% | 70.6% | 72.5% | 71.2% | 71.0% |
| Return on Equity (ROE) | 11.3% | 12.9% | 14.8% | 14.3% | 11.6% | 12.0% |
| Return on Assets (ROA) | 11.5% | 14.2% | 15.8% | 15.3% | 12.7% | 13.0% |
| Return on Invested Capital (ROIC) | 9.8% | 11.9% | 13.0% | 12.5% | 10.2% | 11.0% |

(Note) ROE＝Net income attributable to owners of parent / Average Equity during the period.
ROA＝Ordinary Profit / Average Total Assets during the period.
ROIC＝Operating Profit after tax / Average Invested Capital during the period.
Effective from the FY2021, the classification of Royalty Income has been changed from non-operating income to Net Sales

# Notes

The financial forecasts and estimates in this Financial Summary are based on information available to the Company at the time of report issuance and certain assumptions judged to be reasonable by the Company, and therefore are not guarantees of future performance. Consequently, actual results may differ substantially from those described in this Financial Summary.

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